

FACTS AND FALLACIES
OF
MODERN PROTECTION.

BY
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~~FINDING THE~~ OXFORD COBDEN PRIZE ESSAY
FOR 1878.

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PREFACE.

THIS Essay was originally written before the appearance of Professor Fawcett's model treatise. It is published now in a thoroughly revised form, in the hope that it may prove a supplement to that work, as attacking Protection by instance rather than analysis. Its aim is to help those who are actually engaged in a struggle with Protectionists, by using facts to expose fallacies, rather than to instruct students by elaborating a deductive system. At the same time, the theoretical basis of Free Trade has been considered, especially in the examination of Mill's occasional recommendation of the opposite policy.

The greater portion of the facts and statistics relating to the American iron trade have been com-
d from the true ca...nged mass of information con-

tained in a Blue Book of Consular Reports issued 1874. Some of the pamphlets of the Victorian Free Trade League have also been of considerable assistance.

QUEEN'S COLLEGE, OXFORD.

(SYDNEY, N.S.W.)

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partial theories. But then feelings made plain what the intellect had failed to grasp. Now similar feelings lead farther on the path of error.

Yet different as is the new Protectionism from its ancient prototype, the cause of each has been the same—want of comprehension of complete theories. Portions of a truth are seen and acted upon as if they formed a whole. The incidence of a tax is followed up in part; but because men fail to trace it in all its complications, they mark the revenue it raises, and miss the damaging drop from an artificial elevation.

Yet there are many who, in the words of Mr. Fawcett, expect that “the striking success of the experiment [of Free Trade] in England ought to render a ready acceptance of the true principles which should regulate the commerce between nations indefinitely more easy.” But it is the nature of this “striking success” which gains for Protectionist fallacies the enthusiastic support of working men. Even Mr. Fawcett, the least dogmatic of economists, has not done justice to that portion of the resistance to Free Trade which arises from a profound dissatisfaction with our present economical condition. This dissatisfaction is the secret of the hostility to the deductions of economists. Working men regard political economy not as a science concerned with the examination of existing facts,

in order to show how these can be bettered, but as an apology for class distinctions, as a countenance to that reckless expenditure of capital which is sanctioned, if it is not made necessary, by existing commercial and political ideas.

Thus modern Protection, instead of being the disheartening surprise which it at first sight seems, becomes almost welcome as a sign that, by some men at least, the present state of things is reckoned insupportable.

It is a protest against the belief that men and masters must ever be unprotected against the cruel misery of fluctuating trade. It is an assertion on the part of the workmen that human labour shall not be huckstered as a bale of goods. It is a refusal by those, who feel the evils of dependence, to be consoled by gloating on the fact that their labour has increased the number of millionaires with an unparalleled rapidity. It is an effort to prevent the labourer sinking into the mere drudge of a machine, and to make him once again a handicraftsman with an artistic love and knowledge of his work.

Though Protection will not cure these evils, but must certainly increase them, we ought to recognise that opposition to this policy must now take a different character. It must no longer proceed upon the assumption that the highest social ideal is reached by the simple method of all men buying in

the cheapest market and selling in the dearest; but it must recognise that competition is a force of nature, similar to a flood or a gale, which, in Bacon's phrase, man "must obey so as to command." It does not come within the scope of the present essay to discuss how this force can best be regulated. This is only the place to show that the attempt to control competition by Protection must always result, under our present economical conditions, in aggravating those evils which it hopes to remedy.

Such a policy still leaves working men entirely dependent upon capital; it does not raise wages; it causes distress to the consumer; it shuts out foreign competition, only to cause a wasteful and often fatal struggle between fellow-countrymen.

Thus, whereas Protection in England was avowedly supported in the interests of a class, the working men of Australia and America are possessed by a thorough belief that, by carrying out their policy, they are benefiting all. The Corn Law supporters refused to consider the sufferings of consumers; Victorians and Americans voluntarily, and with their eyes open, undergo these private inconveniences, because they believe the mass of the community is better off thereby. They see plainly enough the evils of Protection as it affects the individual consumer, but they believe that by enduring these evils they will raise and keep high the general standard

of comfort in the country. They imagine that though Protection makes things scarce, it brings much work; that much work gives high reward to capital, and high wages to the labourer. They believe that, if they did not submit to pay dearer for what they consume, their working classes would be reduced to the level of the English.¹ Strange as such a delusion is, it would be most unjust not to recognise the honesty of purpose with which it is generally supported.

§ 2. The abnormal relations of the requisites of production in young communities does indeed offer some excuse for error. Labour is scarce, land is cheap, capital is abundant. The spectacle is, consequently, presented of the union of high wages and large profits. The Protectionist party, on perceiving this, ask for legislative interference, on the ground that, without such efforts, the profits both of labourers and employers would sink to the level which prevails in Europe. And further, they maintain that the successful mode of preventing this decline is the "fostering of native industry" by means of taxes upon importations. Then, lest any class should be peculiarly favoured by such restric-

¹ Mr. Fawcett notes a less elevated cause for the advocacy of Protection—the desire of newcomers, who have immigrated without a knowledge of the wants of the community, to see those trades established in which they themselves are skilled.

tions, they carry out their policy consistently by taxing everything which can or may be produced within the country. Protectionists thus represent themselves as patriots, desirous of developing the resources of their land, fearing that, if foreign competition is allowed, there will be no stimulus to home exertion, and national stagnation will ensue. Two reasons are brought forward to prove that the colonial manufacturer cannot compete with the foreigner on equal terms. Firstly, the high rate of wages prevalent in young communities; secondly, the expense and difficulty of starting manufactures, seeing that the requisite skill and experience can only be acquired by years of practice.

It will be convenient to consider the idea which underlies these views,—that old truths are not applicable to the new conditions. This idea is one which is supposed to have approved itself to no less eminent a thinker than John Stuart Mill. Indeed, the whole of the Protectionist argument from natural difficulties is professedly adopted from this economist. It will be well, therefore, to quote in full the passage in question, in order that a detailed examination of it may clear away the notion that difference in economical conditions gives any colour to the introduction of Protection in young communities. Then we can proceed to set out the special character taken by such Protection,

and to criticise the local reasons urged in its support.

"The only case in which, on mere principles of political economy, protecting duties can be defensible, is when they are imposed temporarily (especially in a young and rising nation), in hopes of naturalising a foreign industry, in itself perfectly suitable to the circumstances of the country. The superiority of one country over another in a branch of production often arises only from having begun it sooner. There may be no inherent advantage on one part or disadvantage on the other, but only a present superiority of acquired skill and experience. A country which has this skill and experience yet to acquire may, in other respects, be better adapted to the production than those which were earlier in the field; and besides, it is a just remark that nothing has a greater tendency to promote improvements in any branch of production than its trial under a new set of conditions. But it cannot be expected that individuals at their own expense, or rather at their certain loss, would introduce a new manufacture, and bear the burden of carrying it on until the producers have been educated up to the level of those with whom the processes are traditional. A protecting duty continued for a reasonable time will sometimes be the least inconvenient mode in which the nation can tax itself for the support of such an experiment.

But the protection should be confined to cases in which there is good ground of assurance that the industry which it fosters will, after a time, be able to dispense with it ; nor should the domestic producers ever be allowed to expect that it will be continued to them beyond the time necessary for a fair trial of what they are capable of accomplishing."

As this passage has been so often misinterpreted to convey an approval of the Protection policy in America and Australia, it may be well to set out clearly at starting what are the conditions under which Mill thinks Protection might be justifiable. They are four in number :—

1. Where the tariff is imposed to *start* a new industry.
 2. Where such industry is plainly "*suitable*" to the country.
 3. Where it is only the *want of experience* on the part of either labourer, or capitalist, or even, as will be seen below, of nature itself, which deters individuals from running the risk of establishing the industry.
 4. Where there is good reason to believe that the fostered industry will soon be able to stand alone.
- § 3. It will not be an excessive admission for a Free Trader, that where all these conditions are concurrently fulfilled some arguments might be advanced in favour of Protection.

The third condition would be the most hard to establish as an actual fact; and yet, as it is the one upon which the others really hinge, it will be well to attempt to fix upon some special industry which is excluded from a young community solely from a want of skill on the part of the producers. Then will be seen the imaginary nature of the obstacle.

In the first place, the industry can be nothing agricultural; for even Protectionists have at length given up the notion that a nation is more comfortable when its food supply is lessened. Moreover, young countries, being most suited to the production of food, would feel most heavily any such hindrance to the development of their natural trade.¹

We must, then, assume that Mill was referring to some manufacture. It will be convenient to divide these into two kinds—manufactures dependent upon foreigners for their requisites of production, and those supported by the natural products of the country.

But manufactures of the first kind are, *ex hypo-*

¹ It may be objected that some young communities have been left out of sight. Some of the West Indies, for instance, have totally different economic characteristics from Australia and America. The answer is, that this very difference is one which lays them outside of young communities which might be subject to Protection; for the main peculiarity of the islands referred to is the excess of capital and the absence of labour owing to the cessation of the slave trade. Consequently, nothing is produced but what is primarily requisite for the maintenance of life. But Protection is needless where there is nothing to protect.

thesis, unable to compete with those outside, owing to the natural advantages, mineral or otherwise, possessed by their rivals. Consequently, no amount of "protection" will ever make such industries "suitable to the country." In their case Mill's second condition must remain always unfulfilled.

Accordingly, Mill's dictum does not apply to industries which lie under a permanent disadvantage in competing with foreign industries, owing to the greater facilities which exist elsewhere for obtaining the raw material.

Thus the only class of industries which Mill can have had in mind are those for the maintenance of which a young country has natural advantages as yet unused.

Delay in the development of resources may be owing to two causes—absence of skilled labour, which Mill has mentioned, and paucity of capital, which he seems to have temporarily overlooked.

Let us assume that it is labour which is wanted. Upon our hypothesis, capital exists in abundance; the development of the country's resources promises to turn out profitable. One will not be making the old mistake of regarding human labour too entirely as a piece of merchandise, if one asserts that the pressure of population and the desire for improvement will soon direct labour to a field where success is so assured. Certainly the evidence of

facts inclines us to believe that, where absence of skilled labour is the *only* obstacle in the way of the development of the resources of a country, it is not long before that difficulty is overcome.

An admirable instance of the tendency of the supply to equalise the demand in the matter of labour, as of everything else, will be found in an address delivered by the President of the Manchester Chamber of Commerce some fifteen years ago.¹ In this he points out how, as the requirements of the world have changed, Manchester has altered her productions. First she sent out cottons, then directed her attention to cloth, and finally, when all the channels for the outlet of her energy seemed choked, she supplied the world with labour; and Manchester arms and Manchester skill have set up and now work many a factory in Africa, Germany, and Belgium.

But even supposing that skilled labour did not come forward spontaneously to enjoy the liberal rewards which absence of competition would ensure, the very assumption of the existence of a large amount of idle capital implies that steps would be taken by private persons to import that skilled labour whose absence was the only bar to their capital finding remunerative employment.

However, let us suppose, for the purposes of

¹ Quoted by Bastiat, "Sophismes Economiques," § 14. The case of the silk-weavers of Lyons, imported by Louis XI., is also in point.

argument, that for some reason or other the skilled labour which is required cannot be obtained, and that it is necessary by any means to educate the native labourer sufficiently to enable him to utilise his natural advantages. It will then be seen that even if Protection may be useful later, it can be of no avail to set the native industry on foot.

We have to remember that, even if we grant that the tax may attract some raw labour, that will not, in Mill's imaginary case, directly start the industry. The workmen have yet to learn the art. But this instruction will be in no way furthered by the imposition of heavy fines upon imported goods of the kind with which our supposition deals. The only effect of such taxes will be that, during the time the new producers are learning how to work, the country will be forced either to use these high-priced imported articles, or else to cease to purchase them at all. But this will in no way benefit the "protected" producers, for, *ex hypothesi*, they are unable to produce anything, and cannot therefore obtain any advantage from the prices being artificially enhanced. They will be supported, during all the period of their instruction, by their capitalist employer. He will be drawing entirely from his accumulated stores, until his workmen have acquired sufficient skill to enable them to supply the wants of the home consumer.

But this is exactly what he would have had to do had there been no restrictions upon importations. He would then, in just the same way, have sustained his labourers whilst they were receiving the needful education. So that the Protection policy has as yet benefited no one. The labourers have received no more; the capitalist is in the same plight as he would have been without it; and the community or mass of consumers have suffered proportionally to their needs for the article which this policy was going to "foster."

Thus, whatever may be the subsequent advantages of Protection, it cannot provide any effectual aid to the "starting" of a native industry, towards the setting up of which the absence of skilled labour and experience are the only hindrances.

We have now to see whether Protection really does confer benefits at a later stage in the history of a trade; remembering, however, that we are not dealing with those benefits which exist only in the imagination of Protectionist politicians, but with such real profits as may be supposed to follow from the protection of an industry of whose fostering by this means Mr. Mill might be considered to approve. Accordingly, we have only to deal with new industries before they become self-supporting, and able to hold their own against foreign competition; for at *that* stage no economist maintains that Protection

is desirable. Sometimes, however, it is urged that Protection may be temporarily adopted, even though the industry can hold its own, in order to recompense the energetic capitalist who started it. It will be well to clear the ground at once of this source of misapprehension.

The founder of a new industry does undoubtedly confer a benefit upon his country, at great personal expense and risk. It may thus often be desirable that the Government should step in to encourage such individual enterprise. But of all modes of such assistance, Protection is the most ill-advised, being at once unjust and unsuccessful. We are for the present concerned merely with its effectiveness in serving as a reward for the originator of an industry. In this object it singularly fails.

In the first place, what help it may give comes after the time of difficulty has gone by. Secondly, the advantages it confers are scattered indiscriminately upon those who may deserve them and upon those who have no claim.

Not only is the enterprising originator allowed to recoup himself by charging high prices for his articles, but the same privilege is extended to all those who, availing themselves of his experience, rush in to share the success which he has won. By this competition the prices of the protected articles are again lowered, until the manufacturer

loses all the advantages of the monopoly which was given him as his reward.

The right policy to be adopted in such cases will be mentioned later on. For the present, we may resume our examination of the effect of Protection upon an industry at the second stage of its development.

For it may be admitted that the assistance rendered by Protection will be of real use to the struggling manufacturer when this industry has indeed begun to be productive, but when its articles are still of an inferior quality to, or are produced at a greater cost than, those imported from abroad.

But it must be kept carefully in mind that, according to the hypothesis of the country being especially suited to the industry, such a stage in the growth of a trade must be of short duration. Its produce must very soon be cheaper than similar articles produced by foreigners.

Here, perhaps, any form of assistance, even "Protection," might be a real advantage to the trade.

Thus Mill's dictum as to the possible advisability of Protection may apply to this special period in the history of an industry,—namely, to that short interval between the first producing of an article and the time when, both in quality and quantity, the article can compete with foreign productions.

And even then the recommendation only applies if this delay in attaining to perfection is owing to want of skill or of experience on the part of the producers. It is hard to conceive of any such case where this aid would be required for more than a few months. Even then, as will be shown later, Protection is not the best means of lending such assistance.

There is yet one other case to which Mill's words may be considered to apply.

It may be said that assistance is wanted towards the naturalisation of an industry the value of whose products depends upon the length of time during which the land or labour has been employed in the production.

But here, as before, Protection confers no benefit whilst the article is becoming fit to use. Whether the system will give advantages later will be best seen by taking as an instance the industry which, of all others, most nearly complies with Mill's conditions.

"The superiority of one country over another," in the production of *wine*, "often arises only from having begun to produce sooner." For not only does the excellence of wine depend upon "acquired skill and experience," but in some degree upon the length of time during which the land has been employed in the production of the wine, as well

as upon the period during which the wine is kept. The wine industry is undoubtedly the case where Protection can be most plausibly defended. But if the matter is examined carefully, it will be seen that the conditions which would make Protection applicable are such as to take the question almost outside the region of the possible.

The case would stand thus:—Home growers produce a poor wine. A heavy tax is placed on all the good wine that is imported, in order to secure fair competition.

One of two results will follow. Either the consumption of wine will diminish—wine being a luxury which is easily given up,—or the inferior wine of the country will be drunk in preference to the better foreign wine.

It would be hard to say that Protection was here absolutely wrong, provided that, if the trade continued unrestricted, the home-grown wine, with all its inferiority, could not be sold at a price sufficiently low to induce consumption in any sufficient quantity to give a fair return to the capital employed in its production. Even then, to make Protection desirable, these four conditions must be concurrently fulfilled. The policy must be adopted only—

1. Where natural agencies require a lengthened period of development to enable them to produce

articles which can compete with the imported products of the same agencies.

2. Where the home-grown products of such natural agencies, even though they are inferior, are unable to find a market owing to the cost of producing them.

3. Where such inferiority is plainly owing *only* to the inferior productiveness of the natural agencies.

4. Where such natural inferiority is certain *soon* to cease.

§ 4. From what has been already said, it may be correctly surmised that Government assistance is by no means necessary to the fostering of native industry. If a trade is profitable, private enterprise may be trusted to develop it.

But there may be occasions when Government interference of the proper kind may render effective aid. If an industry is really kept out of a new country solely by want of skill on the part of the producer, the Government may supply that want in two ways, each of them assisting, not supplanting, individual energy, and each of them differing from Protection in being effective to achieve their end.

The public money might be used for the purpose of importing the required skilled labour, or industrial schools might be set up in the country for the teaching of the craft.

But, even with this assistance, the starting of a

new industry remains an undertaking of considerable difficulty. Yet it is most desirable that this difficulty should not be exaggerated. Undoubtedly there is a risk of failure owing to the want of experience on the part of all concerned; but this difficulty is not really enhanced by any circumstances peculiar to young communities. Protectionists constantly maintain that the demands in a young country for certain manufactures are not sufficiently large to justify the great expenditure which would be necessary for the laying down of a plant big enough to secure cheap production.

Undoubtedly that in young countries, as in old, the small producer is at some disadvantage as compared with the big manufacturer; but no business has ever become large without having formerly been small. Little men must, therefore, start with little plant, and must wait until the country grows large enough to enable them to undertake a greater enterprise. Consequently the risk in starting a new industry diminishes in proportion to the difficulty.

However, it cannot be denied that the originator of an industry may fairly claim compensation for his risk and trouble. The question then arises, How can this compensation be most effectively afforded?

It has been pointed out already (p. 16) that assistance in the establishment of an industry may be needed while the home manufacturer is unable

to secure a market for his goods owing to a temporary inability to compete with the foreigner; yet there are grave reasons against fostering an industry, even during that short period, by a system of Protection.

In the first place, Protection cannot be adopted without inflicting a hardship on the mass of consumers; and the desired result might be achieved with equal certainty and less inconvenience by giving a subsidy to the originator of the industry, to enable him to sell his goods at market rate. This would serve a double purpose. Not only would it be a reward to the originator for the trouble he has taken, and so stand in place of the bounty recommended above, but it would also be an assistance to the maintenance of the industry. But, nevertheless, it is a form of aid which is not entirely free from all objection. Continued bounties, no less than Protection, discourage both capitalist and labourer from improving their modes of production to that point when aids in any form will be unnecessary. It is so much easier for all concerned in the industry to receive, by means of Government grants, the same rewards for less trouble, that it is hardly to be supposed that they will exert themselves extremely to shorten this period of gratuitous assistance.

But it is just possible to assist a manufacturer

without injuring the consumers or taking away inducements to improvements in production. A bounty might be given according to the amount of the articles disposed of, to enable prices to be kept at the market rate; and yet, if it were terminable at the end of a short period, activity might still be stimulated.

Still it remains a fact that Protectionists do not bring forward cases where industries have actually been excluded from a country for the reasons mentioned above. The production of wine—the only industry it is easy to conceive of as being likely to fulfil the conditions—was naturalised in Australia without any assistance from Protection. A small bounty was offered for the first tun of wine produced in the country, and then private enterprise was left to work alone.

It may, then, be said by way of summary, that Mill's dictum as to the occasional advisability of Protection in young communities contains three errors:—

Firstly, It overlooks the fact that the skill which alone excludes the industry will always be supplied by private enterprise, either on the part of the capitalist or labourer.

Secondly, It does not recognise that Protection would afford no assistance towards the starting of an industry.

Thirdly, It overlooks the fact that though Protection may help the capitalist when he has indeed begun to produce, but to produce something inferior, it is more effectual in setting a premium upon laziness than in rendering real assistance.

Even in this latter case, Protection is not so successful a means of conferring aid as would be a promise by the Government to recoup the founder of the industry for what loss he might experience, during a short and definite period, by having to sell his goods at the low rate caused by foreign competition. Provided the most scrupulous attention were paid to the merits of every case, such a policy would at once reward unprofitable trouble and encourage hazardous experiment.

To the above objections to Protection as a means of starting an industry may be added the obvious one, that the young industry will never be able to stand alone, because before it reaches a position which might enable it to dispense with Protection excessive competition will have rendered its unassisted continuance unprofitable.

CHAPTER II.

PROTECTIONIST DEFENCES OF PROTECTION.

§ 1. BEING now free to set aside the one true economist who has been supposed to advocate Protection as an occasional necessity in a young community, we may consider the delusions of those whose never-ending boast it is that they are "practical" men with notions founded upon "common sense." Perhaps at the end of such examination it may be perceived that it is not always "practical" to reject the teachings of experience, because that experience is summed up in a general formula or theory, instead of being left to straggle through a mass of isolated instances.

In the case of young communities, the delusions may at first excusably result rather from a non-recognition of the theory than from a denial of its correctness. At first sight the whole economy of the New World appears so different to anything experienced in the Old, that it is not altogether needless to inquire whether, with conditions thus

apparently reversed, our former truths are to be accepted as entirely applicable. Seeing land procurable for next to nothing, capital plentiful, and labour comparatively scarce, Protectionists affirm that their system is the only one which will meet such altered circumstances.

It will be well to set out the reasons of such a declaration before proceeding to question its correctness. For in a controversy with Protectionists there is unusual danger of Free Traders failing to grasp the position of their adversaries. It is difficult for us to realise the state of those who refuse to accept what seem to us axiomatic deductions from elementary facts.

It may not be presumptuous to suggest that part of this opposition may be owing to Free Traders having relied too entirely upon theory. They have not lowered themselves to the level of the people. Except Bastiat, there is hardly one economist who has attempted to deal with the subject in a popular manner, examining fallacy by fallacy as it arises, instead of wearying the uneducated reader by an elaborate exposition of a system. Nowhere could such a course be more impolitic than in a young community. All the social and political institutions of such countries tend to make hard-headed, ready men, who boast themselves, with justice, of their practical ability. So long, then, as

political economy remains a purely analytical science, care must be taken to assimilate it, for practical purposes, to what it may finally become when it is established on its proper basis—a historical system of political morality. The only means of approaching to this ideal possible to us at present is a separate consideration of every case where any fallacy arises. Our inferences would then be made directly from the facts, leaving no room for the charge that the facts have been procured to fit the inferences.

In accordance with this idea, we will proceed to examine the Protectionist arguments. To avoid any suspicion of garbling their language, it will be well to quote their manifestoes.

§ 2. *Extracts from the statements and answers of the manufacturers of iron in Pittsburgh to the interrogatories of the Revenue Commission, 1866.*

"Labour has invested in manufacturing a much greater capital than the owners of machinery. At present, the average individual earnings of the mechanical and operative classes are understated at \$1000 each per annum, a sum not quite equal to the legal interest of \$17,000.

"Should the manufacturer realise the net profit of 6 per cent. on the capital invested, he would realise a little over \$1000 on each 17,000 invested. Taking an establishment capable of producing 5000

tons of finished iron annually, its cost would be, in accordance with our previous statements, \$625,000. The average number of hands employed on such establishment would be 500. Upon these employés would be dependent, at the average rate, 2500 persons. The average wages paid to these 500 operatives, at \$1000 per annum, would be \$500,000. The principal to produce this sum of interest annually would be \$8,333,333 worth of labour, the proportion being about 1 to 12.

"While labour, then, requires protection more than machinery, in the proportion of 12 to 1, the Government also receives it to a larger extent than the manufacturer. The Government . . . would obtain in taxes from the establishment instanced \$104,900. . . .

" Is it not, then, for the benefit of labour and the Government, rather than for themselves, that manufacturers appeal for protection against all those products of foreign low-priced capital and low-priced European labour that threaten to take from American industry the American market ? "

Figures are then advanced to prove the impossibility of competing with the English.

"Cost of a fully equipped establishment capable
of producing 10,000 tons per annum, . . . \$1,250,000
Capital to carry it on in all its branches. . . . 750,000

\$2,000.000

A similar one in Great Britain costs	\$ 500,000
Capital to carry it on,	<u>300,000</u>
	\$800,000
Interest on \$2,000,000 invested in Ameri- can establishments at 8 per cent.,	160,000
On \$800,000 in England at 5 per cent.,	<u>40,000</u>
Leaving a balance of interest against the Ame- rican manufacturers of	<u>\$120,000</u>

"This is equal to \$12 per ton on the amount made, or 15 per cent. net profit upon the sum invested in the English ironworks; an amount of interest satisfactory to English manufacturers, and which would justify them in large investments.

"In addition to this, . . . the rate of wages is another heavy item against the productive interests of this nation.

	In U.S.	In England.
"Cost of production of pig per ton,	\$35.00	\$14.00
Waste in converting it into bar,	8.75	3.50
Cost of one ton of finished bar (including everything),	52.00	20.00
Taxes,	8.64	0.00
	<u>\$104.39</u>	<u>\$37.50</u>
Balance in favour of English ironmaster of		\$66.89
Add the difference in the interest as above,		<u>12.00</u>
Giving		\$78.89

as the total amount that iron can be produced more cheaply in Great Britain than in this country."

The following extract from Mr. Harris Gastrell's

Report on the Iron Trade develops the idea of the advantage accruing to the labourer and the Government from a system of Protection:—

“ . . . We find that every ton of rails costs \$80 in wages of labour. At least four-fifths of this sum, or \$65 out of \$80, are expended in living as soon as earned, and it is possible to tell very nearly for what it is spent, and what revenue the Government derives from this source upon a ton of American iron, which, of course, it could not receive if the iron were manufactured abroad.”

A careful estimate is then given of a workman's average expenditure, with the result that, out of every \$65 spent in living, \$5.83 go to the Government in taxes.

The same writer then goes on to show, item by item, that “the ironworkers are the best patrons of home industry;” that they consume of domestic articles \$34.78 worth of agricultural products; \$17.77 of manufactures; while they buy from the foreigner only to the extent of \$6.20.

In Victoria similar ideas are prevalent.

The “Protection League” has been formed by “believers in the national system of finance, in view of the aggressive action recently taken by the Free Trade or unpatriotic party in organising the ‘Free Trade League,’ for the purpose of fostering foreign and extinguishing native industries.”

The objects of the "Protection League" are thus expressed :—

"To protect 'producers and manufacturers' residing in this colony from unfair competition with producers and manufacturers residing in countries where wages are low and long hours of labour prevail, by the laying on of equitable custom duties on articles which can be advantageously produced and manufactured in Victoria.

"To protect importers from the continuance or imposition of duties on articles which hamper trade without extending employment.

"And last, though not least, to protect employers (children and adults) from low wages and long hours of labour."

These quotations will be enough to show what are the practical advantages which Protection is supposed to bring. Before considering the manner in which these ideas have been carried into action, and the results they have achieved, it will be convenient to examine the theories upon which they rest.

If a modern Protectionist were to formulate his views, his general theory would be much to this effect :—

"The rate of wages in a new country is high because capital is in excess of labour. Consequently, the colonial manufacturer cannot compete with

those who have the benefit of Europe's pauper labour, unless colonial wages are reduced to a similar level. But the rate of profits in young countries is also very high. Accordingly, if the capitalist is to compete with the foreigner, he must be content with the same rate of profit as the foreigner. Plainly, then, if the country's resources are to be developed, something must be done to exclude this competition. How can the marvellous wealth of iron which America possesses be ever utilised when the English master can sell iron in America for less than the cost of production only to the Pennsylvanian manufacturer? Or how can bootmaking be naturalised in Victoria when the master has, in the production of one pair of boots, to pay more away in labour only than would buy an English pair in Collins Street? But are America and Victoria always to be dependent on the stranger for the requisites of progress? Obviously the duty of patriotic citizens is to insist at once upon a tax on importations. The result of this will be twofold. The nation will be freed from its dependence on the foreigner; and by producing for itself all that it requires, it will save the money which before was sent abroad, and so keep the national market for the national labour. But even a greater benefit than this may be expected. An enormous stimulus will be given to home manufactures, be-

cause things will be wanted as before, and there will be no other source of supply. Consequently there can be no more pauperism. With such a demand, labour will never be without employment; and as competition is excluded, prices may be kept up for ever; and so capital and labour will always, each of them, receive their present high reward. But as it is obviously unfair that any trade should be particularly favoured, Protection must be extended to all industries alike, that wages may be kept high everywhere. None must suffer at the expense of the other. Thus the general level will be raised; every citizen will be comfortably off; the nation will have entered on an era of indefinite prosperity."

There is no need to multiply proofs of the assertion that modern Protection is almost entirely based upon the one delusion that tariffs can keep wages high. When this notion is once upset Free Trade is certain; therefore, if any practical good is to be done, all attacks upon the system must be concentrated here.

The best mode of exposing the futility of legislative interference for the purpose of keeping wages high is to set out the true causes upon which high rate of wages depends. We will first come able to false opinion that the rate of reward w^trade, the labourer receives is determined by the what really

the work he does. This is the view that "demand for labour is caused by demand for commodities." It is imagined that any one who, by bungling workmanship or by extravagance, causes two labourers to be paid instead of one, thereby doubles the amount of remuneration received in wages. It is undoubtedly true that the necessity of employing more labour does for the moment cause an increase in the amount of reward given to the hired labourer; but inasmuch as one-half of this expenditure is *ex hypothesi* wasteful, it lessens by one-half the amount which the engager of the labour is able to direct to productive employments. No one, for example, could imagine that it would conduce to the general prosperity gradually to poison all the wells and streams in England. Yet such an action might be defended by every argument advanced in favour of Protection, and of the theory that high wages are caused by demand for commodities. As thirst must still be quenched, another means must be adopted of procuring drink. A new industry will accordingly spring up. Capital will be directed to the distilling of salt water; to the infinite advancement of builders of all sorts, of carters, horse-dealers, before tanks, tank-makers, coopers, and fishermen, not market for the number of retail water-sellers who benefit ^{it} as well. And in this case the industry stimulus ^{w^r} perish. With every increase of popu-

lation more water would be wanted, and a profitable and permanent employment will have been provided for the poor.

Unnecessary expenditure not only keeps living workmen from employment, but is so much taken away from the capital, the profits of which might be providing a store out of which workmen in the future could receive employment. The apparent gain to some is equally a loss to others, and is probably a check to the increase of the store distributable among labourers; for the aggregate wealth of a community is not increased because a change in the character of goods demanded alters the direction of capital. The whole amount payable in wages can only be increased when the increased demand for certain articles is in excess of the diminished demand for others. But to assent to this is equivalent to agreeing that it is an increase in the aggregate wealth of a country which causes an increased demand for labour, by increasing the fund out of which wages can be paid. That this is the true cause of high wages, and is a cause independent of demand for commodities, will be set out in the following section.

In order to understand the true cause of high wages in Australia and America, and to be able to judge of the effect of wages upon foreign trade, the ground must first be cleared as to what really

determines the cost of production. The capitalist view that high wages hamper trade, and the Protectionist cry for defence against "pauper labour," spring from the same original confusion, which Professor Cairnes has disentangled, between the costs of production and the rewards of production. For the theory that the cost of production is determined by the two factors of wages and profits does not hold even verbally, except from the point of view of the capitalist. To the employer of labour cost of production is undoubtedly represented by the wages which he pays during the production, and the profit which he afterwards gains. But an analysis which regards the phenomena from a more general standpoint shows that the *ultimate* cause of the cost of production is the amount of effort which has to be expended, wages and profits being the money reward by which this amount is measured. It is true that, under existing conditions, this effort may generally be distributed into two parts—the work of the labourer, as he is more particularly called, who receives a predetermined reward; and the work of the employer in amassing capital, in abstaining from its enjoyment, in providing against risk, and in superintending the process of production. Nevertheless, to overlook the fact that profits always, and wages frequently, are the reward given by the article when produced, and are not consequently

factors which make up the cost of production, leads to very grave mistakes in practice.

Thus, the rate of wages—*i.e.*, the amount of the “labourer’s” effort when measured in its money reward—depends upon the proportion borne by the aggregate wealth of a community to the number of its citizens. In other words, wages can rise or fall according to the increase or decrease in the average power possessed by individuals of procuring satisfactions. But this abundance or scarcity of general wealth depends upon the productiveness or the efficiency of work;—using the term “work” to include the efforts of every one who directly or indirectly by any effort on his part assists in the production of an article, whether he be the actual moulder of the article itself, or the philosopher who suggests the method of action, or the poet who lightens the toil;—and increase in general wealth means an increase in the accumulated store out of which advances may be made to the hired labourer, and an increase in the number of commodities which may be exchanged for the commodities of foreigners.

Accordingly, the question to be settled by him who desires to keep wages high is this, How can work be rendered more efficient?—in other words, How can the same amount of effort produce more?

The most obvious means through which work is rendered more efficient is increased human ability

to produce. A simple instance of this will show that high wages do not necessarily imply dear production.

A, a workman, receives as wages 35s. a week, and produces by his labour goods of the money value of 40s. 4s. 6d. of this is spent in supplying materials, &c., the remaining 6d. goes to the employer as his wages of superintendence and as interest on his outlay. A spends his spare time in studying the intricacies of his craft until he becomes a most accomplished workman. Knowing his own worth, he claims and obtains an increase of 10s. a week in his wages, as a reward for his increased skill. But the mere fact of the employer deeming it worth his while to pay the extra 10s. to retain A in his service shows that he, at any rate, thinks that he will prove no loser by the transaction. And his surmise is correct. A's increased skill enables him to produce in the week goods of the money value of, say, 50s. If the cost of material has remained the same, the profit of the employer will still be 6d., as before. He will have lost nothing by the labourer's gain. But it is very probable that A will now be able to produce even more than 50s. worth of goods. In that case, every penny above 50s. is so much clear gain to the employer.

Moreover, the increased money wages earned by A, arising as they do from a real increase in the

national wealth (provided he has not been employed in some entirely useless occupation), will enable him to benefit others, by bettering his style of living. This will give him a further increase in his power of work. What before took nine hours will now be done in eight, leaving an hour free for the production of something else.

But the efficiency of labour is equally increased by the removal of any obstacles which have to be overcome. A cotton manufacturer can produce more cotton goods if he can procure cheap raw material than he would produce had he to give the greater part of his attention and money to the growing of cotton. Natural advantages are free gifts to man. The more of these a workman can gain, the less expenditure of effort he requires, because the gratuitous assistance of nature enables him to produce more with equal trouble.

We may now conclude that there is no fear of a permanent decline in wages in Australia or America until work becomes less efficient. Many causes might bring about this result. The increased difficulty of extracting gold has already begun to do so in Victoria; an exhaustion of the more fertile soils is continuing the process. No great decline can take place in America or Australia so long as they continue to enjoy their immense natural advantages; but it must be hastened by every attempt to deprive

either country of its peculiar superiority, by throwing obstacles in the way of the development of its special resources. That this is one effect of Protection will be proved below.

The effect of wages upon competition with foreigners now remains to be considered. Professor Cairnes has shown that where competition is unlimited the rewards for production vary according to the average sacrifices undergone by each class of producers. If competition is hampered, articles are exchanged according to the comparative strength of the desires of the two trading parties to obtain the article which either of them is prepared to sell. It is this "reciprocal demand" which primarily determines international values. Its limit is reached when the seller asks for any article more than it would cost the buyer to produce it for himself. Thus, whatever increases the cost of producing an article in one country by so much diminishes the desire of the inhabitants of another to obtain that article from the former country. Thus, if Protection increases the cost of production, it must hamper foreign trade.

It is commonly assumed that a low rate of wages gives a country an advantage in competing against another in which a higher rate prevails. Plausible as this view appears, reflection will show it to be wrong. From what has been said above, it will be clear that a

rise or fall in wages can only affect foreign trade when it proceeds from an increase or a decrease in the productiveness of work, seeing that the movement is then a sign of an enlarged or a diminished power of satisfying the wants of others ; for a rise or fall in wages does not necessarily alter the amount of effort requisite to the production of an article—that is to say, it does not necessarily alter the cost of production.

But capitalists, when they clamour that high wages ruin trade, generally regard the prevalent rate merely as they imagine it to affect their profits. We have therefore to consider the result upon foreign trade of a decline in wages which does not arise from any diminished power of production, but from an alteration in the relative shares of the labourer and of the employer in the amount produced. In this case there is simply a change in the distribution of reward ; there is no necessary alteration in the quantity of effort put out either by labourer or employer. It is beside the point for any capitalist to dismiss this reasoning by the simple assertion that "if he could pay in wages 60 per cent. instead of 70 per cent., he could be left with a margin of profit which would enable him to benefit the country with a new industry," unless he is able to get over both the arguments and the facts adduced upon this point by Professor Cairnes.

No one is competent to decide, from his own narrow experience upon the relation between wages and trade, unless he is master of the principles laid down in chap. ii., part iii., of "Some leading Principles of Political Economy newly Expounded." In that chapter it is proved that a general fall of wages which springs from a general rise of profits would offer no inducement to start new industries, but would leave the distribution of wealth exactly as it was before: that a partial movement in wages can only take place temporarily where competition is limited: that such movement may indeed affect that which is the proximate cause of international exchange, the relative price, but affects it in such a way that it is impossible to foretell the result, so that a fall in prices may sometimes positively cause a contraction of trade. It would be presumption in me to alter the form of such masterly argument, and the passage is too long to be transcribed.

Thus, Protection is not necessary to keep wages high, because high wages are the result of effective work.¹

¹ This may seem at variance with Professor Cairnes' statement, that "the productiveness of industry only affects the rate of wages and profits in so far as it results in a cheapening of the commodities which enter into the consumption of the labourer." It may be doubted whether this modification of the true principle, that "the

Protection must accordingly be judged by its effect in rendering labour more or less efficient.

Later pages of this essay will show that Protection makes labour less efficient in two ways: (1), by destroying foreign trade, and so depriving the home workman of the power of exchanging his surplus product; (2), by rendering useless the special faculties of production possessed by certain places, or, in other words, forbidding the workman to avail himself of the free gifts of nature. In these two ways Protection diminishes the aggregate wealth of communities, inasmuch as it weakens the efficiency of work by creating fresh obstacles to be surmounted.

Before proceeding to test Protection by its effect upon wages, may we not see that the condition of America and Australia demonstrate the truth

lessening of the cost of production causes a rise of wages, measured in the commodity of which the cost of production has been cheapened" (viz., in America and Australia in precious metals and agricultural produce), is capable of any practical application. It is verbally true, but of little value; for there are but few articles which enter into the consumption of one class only. But even where the cheapening of production benefits the wealthy only, in so far as it enables them to satisfy their wants with less effort, it sets free new capital to afford new gratifications. Moreover, even if the article be one of "purely luxurious consumption," its cheapening may have a moral effect in influencing the "effective desire of accumulation." The wish to obtain it may stimulate saving, and its actual possession may mark a step towards a higher standard of living.

of the maxim, that the rate of wages depends upon the ability of the labourer to produce? In both these countries the efficiency of labour is increased by two causes. Firstly, the education of the labourer enables him better to utilise his powers, by bringing brains to his assistance; secondly, the natural fertility of the soil, together with the practical absence of rent, reduces the price of food by enabling much to be produced with little effort and at small expense. Consequently, the general standard of living in these countries is extremely high. Labourers are able to insist on greater comforts. The money which is spent by Englishmen in supporting life goes, in new communities, in the purchase of comparative luxuries. But the same causes which combine to make labour more efficient are at work to increase the reproductive ness of capital. For the "efficiency of labour" is a phrase without a meaning, unless it implies "a power of increasing the national wealth." But if more is produced, there is a larger amount from which savings may be made; and if that larger amount is reproduced very rapidly, or, in technical language, if capital "turns over" quickly, every inducement to saving is put forward. But the limit which can be distributed in wages is the amount of such saving, and no more. Accordingly, the success of a policy which sets before it the aim of keeping up high

wages must be judged by its effect in increasing or diminishing the national wealth.¹

§ 4. Protection is supposed to increase the wealth of a community in two ways: (1) by reserving the home market for the home labour; (2) through the effect of the establishment of new industries.

1. It is urged that Protection would increase the wealth of the country by causing the money now spent in purchasing imported goods to be divided among the home producers.

This arises from a misconception of the nature of wealth, and an ignorance of the true character of trade.

Such a phrase implies, firstly, that money is wealth; secondly, that every importation is paid for in hard cash; therefore every purchase from the foreigner impoverishes the country in proportion to the amount of money it sends out of it. Accepting

¹ High wages might also be kept up without any increase of capital by a diminution in the number of the labourers. This side of the question only concerns the subject of the présent essay in so far as one of the objects of the avowed Protectionists is to put a stop to immigration. They fortify themselves with arguments from Mill and Maithus, not perceiving how totally inapplicable these are to the case of young communities. Decrease in the number of labourers is only desirable provided such decrease does not lessen the efficiency of labour. In England, under the present land system, decrease is desirable, because the same total amount could be produced by fewer workmen, and with much greater comfort to all. But wherever, as in young communities, every increase in the number of labourers only gives a greater stimulus to the development of the resources of the country, such increase directly tends to perpetuate high wages.

this view it follows that that country is the richest which possesses the greatest quantity of gold and silver. The fallacy of this will be made obvious by considering what would be the condition of a country whose wealth consisted entirely of the precious metals. Such a case makes it clear that money is valuable only in the power it gives of purchasing articles which are necessary or desirable. In fact, money is merely a medium of exchange—a token to facilitate transfers of goods. For instance, a farmer desires to exchange a haystack for a cart. A horse-dealer is ready to buy the stack, but has no cart to offer in return ; but instead of waiting until he meets with some one who will give a cart in exchange for any of his surplus articles, he hands over to the farmer the value of the cart in money, while the farmer, instead of hoarding the money, proceeds to exchange it for the cart he needs. Thus, though the process has been complicated by the intervention of a third person, and though it might in the same way become more complicated, it is none the less true that the haystack has been exchanged for the cart. In fact, every trade transaction is a barter. The same truth holds of foreign trade, though the result is less directly brought about. As trade is meaningless unless there are two parties, one country cannot be always receiving nor another always giving. Exchanges must be

mutual. Thus every import requires by its very nature a corresponding export, so that importations are an infallible sign of vigorous production.

But Protectionists may reply, "How can we be certain that the barter transaction is completed in *our* country? An American manufacturer pays \$60 for a ton of English iron. Suppose the English iron importer takes away that \$60 to spend in the purchase of French silk. America is poorer—by the amount of potential satisfaction contained in \$60—than she would have been had the manufacturer been compelled to purchase the iron from a home producer. Thus, even supposing that the home iron were \$10 dearer, the purchaser would lose \$10, but the country would keep \$60."

This objection may be answered by an assertion that such cases must be rare and isolated. Our imaginary manufacturer acted as he did because America produced nothing which he needed. The troublesome course of remitting the money to France, and there purchasing what he needed, was more profitable to him than the completion of the transaction on the spot. But consider the effect if all importers acted in a similar fashion. Insomuch as then they would be exchanging their goods for money only, America's stock of corn must soon be exhausted. When this result has happened, America has lost its power of purchasing from

others, insomuch as she possesses nothing which the foreigner will receive in return for the goods which he imports.

Therefore, without denying that such a case is of possible occurrence, we assert that the mere fact of a country being able to supply itself with foreign goods, proves that it does produce something which other people want.

If a country was unable to produce anything desired by others, neither Free Trade nor Protection could give it a prosperous commerce. When its inhabitants had consumed their present store, they would have nothing to fall back upon. They might be just able to support themselves. An *internal* gradation of wealth would probably grow up, but the outside world would judge them to be paupers.

2. The second way in which Protection is imagined to increase the national wealth is by the establishment of new industries.

It is one of the most satisfactory features of a young community, that ill-considered action often results from a strong sense of the individual's duty to the state. Consequently, half-educated Melbourne voters are easily influenced by appealing arguments, of which the following may be taken as a specimen.
"The boot manufactory at Collingwood was set up through the tariff. And the establishment of that manufactory means not only that several hun-

dred workmen gain a livelihood themselves, but that they are enabled to spend money in the encouragement of trade of every kind. Practical men know that, at any rate in this case, the fact that boots have been a little dearer has benefited the community by giving work to a number of its members."

This line of argument proceeds upon the assumption that the capital employed in these new industries marks so much increase in the aggregate capital of the community. If this is true, whence did this capital originate? Was it called into existence by the tariff? Surely, then, it were an easy means of liquidating every debt, if the imposition of a customs duty could increase the amount of money in a country! But seeing that this capital cannot be the creation of a tax on imports, it must have already existed in the country. But as it did not lie idle, the fact that it was not employed in the production of boots (to continue with our Melbourne instance) proves that it was engaged in some more profitable occupation. Thus the Protective policy has diverted a certain amount of capital into the protected trades, through the Government having engaged to ensure that these trades shall prove profitable, by artificially raising the prices of their articles. As regards the aggregate wealth of the community, the result has been displacement, not increase.

Bastiat sets out the point with inimitable clearness. "A nation which isolates itself by adopting a prohibitive regime multiplies its branches of industry—that I grant ; but they become of diminished importance. It adopts, so to speak, a more complicated industrial rotation ; but it is not so prolific, because its capital and labour have now to struggle with natural difficulties." . . . There may be "more varied employment, but the total mass is not increased. It is like distributing the water of a pond among a multitude of shallow reservoirs ; it covers more ground, and presents a greater surface to the rays of the sun ; and it is precisely for this reason that it is all the sooner absorbed, evaporated, and lost."

But there are two causes peculiar to young communities which, to some extent, delay the recognition of this obvious truism.

In the first place, a country in its youth is so small that the immediate results of Protection are at once manifest. The new manufactures which are called into existence stand patent for all to see ; while the remoter losses inflicted by the system are no whit more apparent than in countries which have a denser population.

The second cause requires a more detailed examination. Individuals in young communities sometimes act so that certain forms of Protection might cause, not displacement only, but a real increase in

the amount of capital invested in the country. New colonists generally bring with them what capital they have, such capital being the result of purely foreign labour. In some instances, the profits returned by this capital, instead of being invested in the colony, are sent back to be reinvested in the mother country. The colonist thus has as little as possible invested in the land in which he lives, and does not allow his adopted country to benefit even by the profit on that little. It may be plausibly urged that, in some cases, Protection would secure that the young country would receive some part of the money hitherto sent abroad. For instance, suppose the said colonist uses a large amount of imported iron ware, and that the foreigner from whom he buys this completes the barter transaction in another country, that is, receives money from the colonist, and satisfies his wants by exchanging that money elsewhere. Here it would certainly be a gain, if the iron importer could be induced to take in return some home-made goods. But suppose that this is impossible, and that the only means of getting our colonist's profits spent in his adopted country is by preventing their departure. If now a restriction is placed upon the importation of iron, the money that formerly went entirely to the importers will now be spent in fostering native industry, causing, in this special point, a twofold instead of a single advan-

tage. The country has as before the iron, but it has also those products which were formerly exchanged for iron.

Thus, though our colonist's power of spending is diminished, this does not affect the colonial producer. *He* rather is a gainer by the amount of money the tax has forced our imaginary individual to spend in the community.

Though such instances are not so unexampled as might be expected, they cannot be of such common occurrence as Protectionists believe. The mere fact of industrial activity shows that very few do as our supposed colonist, and that against almost every importation can be set a corresponding export. But even taking Protectionists at their word, it would be impossible to act upon these cases. Even if they were more general, they would offer no ground for legislation, insomuch as they concern individuals only, and their occurrence is rarely capable of actual proof. They are merely isolated instances. To found upon them a policy of Protection would be like compelling men to inflict bodily injury upon you that one physician might have the profit of a fee.

Protectionists may urge that their policy does ultimately increase the wealth of a community, by securing high profits to the capital engaged in the protected industry, and so enabling its more rapid

reproduction. The wrongness of this view will be exposed when we come to consider the actual effect of Protection in lessening the wealth of a community.

There is yet another way in which Protection is asserted to enrich a country. When Free Traders, on hearing of the imposition of another duty, mutter words sounding like "monopoly" and "spoliation," Protectionists indignantly affirm that their policy rests entirely on the highest moral principles, seeing that it robs no one but the foreigner.

While refusing to question for a moment this orthodox principle, one may ask whether Protection really succeeds in carrying out so noble an ideal. May not such a belief be founded upon a misunderstanding of the nature and operation of Protection? Because foreigners may be made to suffer by restrictions placed upon their importations, it does not follow that the protecting country gains what they lose.

Duties may be of two kinds, according as they are imposed for fiscal or protective reasons. Duties on such foreign commodities as do not come into competition with the produce of the home country do to a certain extent fall upon the foreigner. But even here he recoups himself always largely, and sometimes entirely, by the increased price he is

enabled to charge. The question is undoubtedly complicated, and one difficult to treat of in the abstract. But it will be enough, so far as the present essay is concerned, to point out that such duties cause no destruction of wealth, though they may alter its distribution.

But it is quite otherwise with the duties, so-called "Protective." The admitted object and effect of such duties is to cause something to be made in one country which, in a state of freedom, would be made more easily and more cheaply in another; or, in other words, Protection is a device for causing unnecessary labour, and so diminishing the gratifications of the world. Had no country been bribed to establish industries for which it was not suited, those industries would have sprung up naturally, wherever they could be conducted at the least cost, and to give the largest return. Protection can merely increase the amount of labour necessary to produce certain articles, and by so doing it prevents or makes dearer the production of others. Thus there is a loss to the world of a certain portion of produce which in a state of Free Trade would have been divided between the exporting and importing country. When a community lays on a protective duty, not only does it weight itself most heavily by causing a waste of capital and labour, but it destroys the production of the articles which used to be given

in exchange for the imported goods. A double injury is thus inflicted; for there is no such thing as an entirely isolated occurrence in political economy. No action can have one result only and its influence then perish. Every benefit and every injury recoils from person to person, trade to trade, nation to nation, always gathering power, as it widens the sphere of its effect. Protection, for example, not only lessens the wealth of the protected country, but, by stopping foreign trade, destroys ability to produce. Thus, though Victoria or America may damage foreigners, they cannot tax them; for, in the words of Mill, "they can never avoid largely sharing in their loss."

But, lest it should be urged that, in spite of theory, Protection does detain wealth which would otherwise be lost to the community, or does induce foreign capital to be invested in the country, it will be conclusive to cite the instance of Victoria, mentioning at the same time that a similar decline in the power of consumption is exhibited by the statistics of America. In both these countries, under a protective regime, the consumption of articles which were not absolute necessities has steadily diminished, or, in other words, the money which used to be spent in gratifications now goes to pay the enhanced prices of protected necessities.

The following figures will make this point quite clear as regards Victoria:—

CUSTOMS REVENUE UNDER THE THREE TARIFFS.

1864. (Free Trade.)

Eleven articles taxed for fiscal purposes produce £1,032,020

Dried fruits,	· · ·	£16,314
Gold export duty,	· · ·	<u>£115,901</u>

132,215

£1,164,235

1868. Ten per cent. (imposed 1865.)

The same eleven articles, · · · · · £786,115

Other duties (protective), · · · · · 378,385

£1,164,500

1872. (More strongly protective.)

The same eleven articles, · · · · · £791,972

Other duties · · · · · £729,900

£1,521,872

1875.

The same eleven articles, · · · · · £923,726

Other taxes (protective), · · · · · 659,516

Add gold export duty—say · · · · · 90,000

£1,673,242

In 1865, though the duty on tea was reduced by one-half, other duties were raised, causing respectively a loss and an increase to the revenue which may be set off one against the other.

These figures will show that the change from Free Trade to Protection led to a loss in 1868 of £245,905 on the eleven articles, from which nearly the whole revenue had been before derived. The loss

on the same in 1872 was £241,248, and in 1875 £108,284. But, if the increase in population be taken into account, the amounts would stand thus—

1864,	£1,032,020
1868,	694,060
1872,	700,450
1875,	667,992

Or, to put the matter in another light, if the Free Trade tariff had been let alone, it would have produced in 1872 £1,492,322, or only about £30,000 less than the gross revenue of that year, after the imposition of taxes to the amount of £729,000.¹

The following details will show more clearly the effect of the tax in diminishing the power of buying:—

	1864.	Duty.	1868.	Duty.	1875.	Duty.
Spirits	£520,645	10s. gal.	£354,162	...	£510,000*	...
Wines	52,018	3s. , "	49,319	...	33,297	6s., 4s.
Beer and cider	39,975	6d. , "	28,484	...	26,477	9d.
Tobacco	117,093	2s. lb.	138,155	...	87,498*	...
Do., unma- } nufactured }	10,457	1s. , "	3,499	...	14,786	...
Cigars	13,807	5s. , "	11,691	...	12,319	...
Tea	100,357	6d. , "	70,382	3d. lb.	73,942	...
Sugar	93,574	6s. cwt.	71,565	...	88,076	...
Coffee	11,328	2d. lb.	13,661*	...	15,086*	...
Opium	35,235	10s. , "	22,200	...	16,037	...
Malt	8,726	6d. bush.	4,890	...	15,032	2s.
Hops	4,470	2d. lb.	7,486	...	9,220	3d.

* Allowing for temporary heightening of the duty.

N.B.—Where no figure is given the duty remained the same as in 1864.

¹ Even this does not show the full weight of the burden. The cost of the Custom-House must be taken to account; and the fact that tariffs raise the price of *home-made* goods, as well as of those imported.

Attention is especially directed to tobacco, cigars, tea, sugar, and coffee. None of these are capable of being produced in Victoria, and they are articles which would feel directly any decrease in the spending powers of the community.

Without bringing forward America as another practical refutation, we are now free to dismiss the hazy Protectionist idea, that their policy *increases* the wealth of a community, and to examine its actual effect in diminishing that wealth.

§ 5. In the case of "simple" Protection, or the Protection of single industries, there are no peculiarities in young communities which falsify the teachings of old-world experience.

The first result of a duty is a rise of prices in the protected trade to the full amount of the duty imposed.

This point is sometimes diminished in effectiveness by being stated in too absolute a form. Account must be taken of the effect both of competition in depressing prices, and of custom in checking sudden rises. Still, without leaving out of sight either of these influences, it may be shown that a tariff must in any case injure the consumer. The dilemma will stand thus:—The tariff was imposed in order that home producers might no longer be forced by foreign competition to sell at a loss. The duty itself is the amount by which the market price of

the imported article is less than the lowest profitable selling price of the same article produced at home. For convenience, suppose this difference to be 10 per cent., the price of the foreign articles must be raised 10 per cent. The price of the home articles must be the same as that of the foreign; for we assumed that the amount of the duty was calculated from the lowest profitable selling price.

Suppose, now, a duty was imposed of 12 per cent., that is, of 2 per cent. more than the difference of the selling prices of the home and foreign articles. The price of foreign articles must, as before, be increased by 12 per cent. The home manufacturer can make a profit if he only increases his price by 10 per cent. But, at first, there is nothing to prevent him availing himself of the exclusion of foreign competition to raise his prices the full 12 per cent.; consequently, in any case, prices will rise, the consumer paying. But this state of things will not continue long. It being seen that the manufacturer is obtaining 2 per cent. above the ordinary rate of profit, there will be a rush of competitors into the protected industry. Capital will be withdrawn from other occupations, again to the injury of the consumer. Finally, if excessive competition causes over-production, and so forces prices down to what they were before Protection, the tariff becomes useless. The evil may be presented in another aspect.

All such Protection causes certainly two losses, possibly one profit. For example, suppose that in a state of freedom a foreign pair of boots can be bought in Melbourne for 20s. A tax of 5s. is placed upon each pair imported. The consumer, who buys a pair of boots, clearly loses 5s.—one loss. The maker of boots gains that 5s.—one gain. But whereas before the purchaser of the boots had 5s. to spend on some other gratification—say woollen goods—he is now forced to go without this latter. Thus the producer of woollen goods is deprived of the power of selling his usual 5s. worth of articles; loss number two. Neither does the boot manufacturer step into the place of the consumer as regards the seller of woollen goods. His gain of 5s. goes directly to the Government, mainly to pay for the officials charged with its collection.

Thus the consumer certainly loses the extra amount he has to pay in consequence of the tax; the producer, to whom, in a state of freedom, that extra amount used to be given, is forced to hand his gain over to the protected manufacturer. The latter, therefore, gains a sum equivalent to either the loss felt by the consumer or that felt by the other producer. But even this gain is only temporary, owing to the excessive competition such bonuses inevitably cause. All who can do so rush in to share the spoil.

Similar competition on the part of the labourer

prevents wages in that industry continuing higher than the average. If the impulse given to the industry by the exclusion of foreign competition does cause for a time a rise in wages, labourers will leave their ordinary avocations to crowd into a trade which gives rewards so much higher than those which they have been receiving. In this way wages will soon sink to the ordinary market rate.

It has now been shown that Protection diminishes rather than increases the national wealth. Therefore Protection can never cause high wages.

But the burden of the proof should rest with Protectionists. It is for them to establish a probability that, without some interference, wages would decline. This is exactly where Protectionists have always failed. Not only have they never been able to answer the arguments as to the improbability of such decline for centuries to come, but they do not attempt to bring forward any instance where the *& priori* view is refuted by facts.

If it were true that the American and Australian manufacturers are utterly unable to compete with the foreigner, we should expect to find but little capital invested in countries where the prospects of failure were so certain.

But such a belief is in total opposition to the facts. The rapid reproduction of capital, caused by the efficiency of the labour, not only gives high

wages, but leaves high profits. Indeed, so remunerative are the ordinary occupations in those countries that capitalists are discontented with a return of less than 8 per cent. Such high interest cannot fail to be attractive to capital, and so long as it continues all the labour in the country will find sufficient employment. Neither need there be a fear of wages falling while capital continues to be reproduced with the same rapidity as now; for such a fall could only be due to a decrease in the saving power of the community, or to an increase of the wage receivers disproportionate to the increase of capital. But so long as the rate of profits remain so high, as it was in America and is in Australia, the amount of the nation's savings may be almost indefinitely multiplied. Again, so long as fertile land is plentiful, and every labourer at liberty to acquire it, living must continue cheap. But cheap food creates efficient labour, and *efficient* labour is the cause of national wealth.

§ 6. Many Protectionists are now beginning to admit that their position is *economically* indefensible. But they claim that there is something of higher consideration than facilities for gaining riches—the moral and social wellbeing of a people. Protection, they say, is the only means of stimulating intellectual activity by causing a diversity of industries, and of rescuing the country from the stagna-

tion of a beefy, buttery bucolicism. Did Protection, indeed, in any respect elevate the masses, or was the system at all needful to save the people from the sluggishness of a single occupation, almost any pecuniary damage it inflicted might be borne with equanimity. But its actual result is very different.

Take the first imaginary benefit: "The country is to be made independent of the foreigner." And what is to be the profit of this independence? Forsooth, that when America or Australia is at war simultaneously with all the world, they may not feel any inconvenience from the loss of their accustomed imports! For it is really a fear of universal war which prompts this vague inducement to Protection; for if even one country remained friendly we could obtain from it, or through its aid, the articles we needed.

The argument that Protection will cause a diversity of industries must be met by a recognition of the advantages of such a result, together with a denial of the necessity for an injurious interference in order to secure it.

As has been pointed out above, a country can only import foreign goods when its own articles are in demand elsewhere. But the larger portion of the Old World is forced to import its food. Consequently there is a great demand for the products of

young countries. Capital accordingly receives large profits, owing to the fact that the demand is very easily supplied. But as capital accumulates it seeks some profitable investment; and few employments offer larger returns than a further development of the country's natural resources to supply the young community with the articles it has as yet imported.

Thus a diversity of industries will grow up naturally, provided there is a sufficient foreign trade to facilitate the accumulation of capital.

But, in any case, Protectionists should remember how many different trades are necessitated by the simplest occupation. Even a purely pastoral community requires houses, clothes, and instruments, causing thus the employment of quarrymen, brick-layers, masons, carpenters, and blacksmiths, not to mention the countless domestic trades, such as tailors, shoemakers, bakers, and purveyors of luxuries of every kind, which no foreign competition can stamp out.

Moreover, as population grows, towns must spring up, if not as centres of trade, at least as reservoirs of agricultural produce.

Therefore Protection can never be required to prevent a country becoming purely agricultural. So long as a land is able to export something, a means is given of replenishing the national store

with the foreign products required for home consumption. But the more vigorous the foreign trade, the larger is the home production ; for through this trade capital continues reproductive, and thus allows large savings to be made. Accordingly, a large import trade is the surest sign that foreign industries will soon be naturalised. Manufactures spring up as need arises ; for then the demand for their products will be sufficient to ensure a profit. To such success a high nominal rate of wages will never be a bar. To institute a true comparison between the wages of an English and Australian labourer, regard must be had, not only to the money reward they respectively receive, but to their relative "*efficiency*," meaning by this their human ability to work, and the amount of assistance they receive from nature.

But if all arguments are to be disregarded when they are stated in a general form, the one fact that in New South Wales manufactures hold their own with agriculture is proof positive that Protection is not required to direct capital to profitable pursuits. And when, further, South Australia and Queensland are bidding fair to become as important manufacturing communities as the "protected" Victoria, no plainer evidence could be adduced that Free Trade is the best stimulus to native industry.

Another defence of Protection is urged from the

different standpoint. Though Protection is established for the most part with honesty of purpose, selfishness soon steps in to secure the continuance of a policy which has created so many "vested interests." A strong support is thus often given to Protection, from a consideration of the loss and hardship which would be inflicted by its abolition. This influence is stronger in proportion to the smallness of the community. Kind-hearted and impetuous persons are easily moved to sympathetic support by a stirring picture of the miseries which would follow an "extermination" of the now protected trade—the ruined capitalists with useless plants, the thousands of labourers "robbed of their livelihood." But such good people do not stop to reflect that this misery will only be made greater and more extended the longer the system is continued, and that when the final crash does come, as it inevitably will, the blame must be laid upon the policy which made such ruin necessary, and not upon that which sought to limit its effects. Moreover, all such appeals to sympathies show ignorance of the fact that, in actual practice, displacements of capital and labour take place always very gradually.

It is just conceivable that there might be cases where a return to a system of freedom would involve the sudden stoppage of large works. There might

be industries so entirely dependent upon state aid that a removal of the subsidy would mean immediate ruin. But, in such a case, the second interference with trade, necessitated to remedy the first, would be made as slight as possible, by taking off the import duties gradually, and after ample notice.

But the strongest argument against Protection is one which should commend itself to supporters of that policy as being purely moral: Protection interferes unduly with the freedom of the individual.

If it is once admitted that one section of the community has a right to be "protected" at the expense of another, a system is initiated which can only end in the destruction of national life. To say that a Government has the right and the ability to change the natural conditions of trade, and to forbid its people buying and selling where they will, is the first step towards raising up a despotism which shall claim to regulate every individual action. The vigour of a people is sapped when they become accustomed to apply to the Government in every difficulty. Private energy puts out no power when it is without assurance that it will be allowed to reap success. Enterprises cease when a vote of the Assembly may at any moment bring them to a summary conclusion. And not only does Protection result in a weakening of material prosperity through the destruction of commercial confi-

dence, but it taints political morality with the poison of corruption. It opens up a boundless field for jobbery, by giving to the few the privilege of robbing the majority: it widens the breaches between class and class, by introducing systematic spoliation: it undermines the public honesty, by encouraging fraudulent returns in order to evade injustice.

§ 7. But common fairness demands that it should be clearly recognised that new-world politicians fully admit the injustice and the impolicy of such a system of conferring favours upon special trades. Their error lies in not perceiving that their own system only differs from that which they so boastfully despise in being more unjust and more im-politic. It does not so plainly benefit any individuals, while it directly damages many, and indirectly injures all. But the complications consequent upon the thoroughness with which their policy is carried out prevent modern Protectionists from always recognising the truths which they profess. It becomes more difficult to trace the effect of a restriction when every loss seems compensated for by a more than corresponding gain. We can well imagine a Protectionist getting lost in the following bewilderment:—

“We have protected the native industry of iron; but, by so doing, we have inflicted a hardship on

all those who have to exchange their services for iron, such as machinists, boiler-makers, &c., &c. As we have therefore made iron scarce and dear, let us go further, and forbid the importation of any substance made of iron. By this means the makers of ironware of all sorts will be able to recoup themselves, by the price they can exact for their now artificially valuable articles."

But here a new injustice arises. The consumers of iron goods of all sorts—the manufacturers and householders, who need boilers, fenders, pots, pans, and ironware of every kind—are they to go without protection? They are hindered in their laudable desire to foster native industry by the high prices they have to pay for *their* requisites of production. They accordingly obtain a tax enhancing the price of the articles which they exchange for manufactured ironware; and directly this complicated business is completed, up crops another lot of patriotic natives, eager to have their industry fostered, even as the iron. Whereupon another arrangement ensues similar to that described above, and so on *ad infinitum*. It is no wonder that the purblind politician, in a despair of puzzle-headedness, cries out with iron producers, iron labourers, and all the deluding and deluded crowd, "Protect not only iron, but coal, cotton, steel, corn, meat, tobacco, clothing, china, protect everybody and everything,"—that

every one may have the pleasure of robbing his neighbour to distribute to the poor : that the laying goose may be destroyed, and one golden egg divided.

Thus, as the avowed object of Protection is to make every article which is or can be produced in the country dearer by excluding competition, general Protection all round would, if *fully* carried out, merely result in a general rise of nominal prices, leaving things exactly as they were.

But such a policy is open to the main objection of complete impracticability, and to the minor difficulty of having never been tried. To carry out the system thoroughly, a tax should be placed upon the importation of money ; otherwise, with all else made scarce, dealers in coin are placed at an unfair disadvantage. But it is not likely that a tax on money would ever recommend itself to a Protectionist ; for if money is allowed to be plentiful, prices will be raised again all round ; profits will thus be higher, and the national wealth gloriously increased !

But the fatal objection to any attempt at general Protection is, that the large majority of the community can never be protected. A large portion of a nation must be consumers rather than producers ; and on such people Protection weighs with all its disadvantages, without being able to confer upon them even an imaginary benefit. All those who

are engaged in rendering services to make life and property secure—such as judges, soldiers, police, and civil servants in all their infinite variety—cannot fail to suffer, unless with every rise in prices their fixed salaries are also raised. Another class which can receive no benefit is that which is engaged in what Mill calls, in the widest sense of the term, “unproductive” labour, whose duties might be better defined by borrowing from Bastiat—“services immatériels.” This class comprises domestic servants, barristers, solicitors, clergy, schoolmasters, authors, artists, and all kinds of “professional” men. Neither does the class of retail dealers receive from the system anything but injury. If we use “retail dealers,” in its widest sense, to mean all who are concerned merely with the *distribution* of wealth, this class will comprise bankers, brokers, merchants (both wholesale and retail), insurance agents, traffic managers, &c., &c. There is yet a fourth class to whom Protection brings more hardship than aid, composed of all whose products are immediately consumed upon the spot, such as caterers, masons, carpenters, blacksmiths, gardeners, &c., &c. In short, one may say that all those whose services or trades are such that they can never fear the competition of the foreigner are directly injured by a system of Protection.

The loss thus inflicted very soon recoils upon producers. Increased prices result either in a less consumption or in a diminished power of saving; and as a great part of the industrial enterprises of a country are carried on by the use of the small savings of consumers, when producers lose the assistance of that capital, industry must languish.

Thus Protection, in any form, must be ineffectual to do good, inasmuch as by no possibility can it increase the amount of disposable capital within the country. If new industries are started, the needful capital, not having been created by the tariff vote, must have been diverted from some other enterprise.

In America and Australia immigration has to a great extent neutralised the evils of Protection. European labour diminishes the hardship caused by the loss of European commodities; while the lessening of national wealth resulting from the prohibitive system is to some extent compensated for by the annual influx of 150,000 immigrants, whose individual capacity, on the usual economical average, may be taken to represent £150 capital.

CHAPTER III.

SPECIAL EXAMPLES—SHOWING THAT GENERAL
PROTECTION CAUSES A DECLINE IN WAGES.

Victoria—Wages.

§ 1. If any evidence were needed to prove that a decrease in the wealth of a nation cannot give the majority of individuals, whose means compose that aggregate, a larger power of procuring gratifications for themselves, such evidence will be found in the economic histories of Victoria and America.

Protection has not been tried long enough in Victoria to result in great misery to the protected classes, partly because the accumulated stores of past years of prosperity are not yet exhausted; partly because it has been found impossible to carry out Protection thoroughly.

Of the 2246 factories given in the Year Book for 1876, as the total number existing in Victoria, 1183, or more than one-half the whole number, existed in spite of the tariff, and even succeeded in making considerable exportations. 518 of the rest,

though nominally protected, really lost directly by the tariff more than they gained. Only 366 out of the whole number were able to draw a certain amount of profit from the system. The remainder included industries which were but very slightly affected by the tariff.

While natural industry can be worked with such advantage, the bribe of a protective tax is not sufficient to attract capital to undertake enterprises for which the country is not suited. But if from any cause general trade were to become bad, there is fear that capital would be attracted to the artificial industries, and that so the crash would be precipitated.

But even as things are—in spite of the cheap land, in spite of the gold trade, in spite of the old prosperity—Victoria is declining. Not only does her revenue show small increase in comparison with that of neighbouring colonies,¹ but the statistics of her general trade exhibit a material lessening of commercial vigour. Since America offers a better field for a full examination of a protective policy, it will not be necessary here to prove each of these statements detail by detail. But as Victoria is at present in the transition state between prosperity and disaster, it will be interesting to see what is

¹ For "selling of land" will not account for the lead which New South Wales is wresting from Victoria.

the condition of producers while the mass of the consumers is becoming poorer. Materials for such examination are afforded by the tables published from time to time in the "Colonies and India," giving the rate of wages current in the several districts of Australia. It will be enough to say, by way of preface, that, before the introduction of Protection, Victorian trade was the largest in Australia, while wages and profits were proportionately high.

The table compiled in November 1877 gives opportunity of comparing the wages paid respectively in New South Wales and Victoria to 40 different kinds of labourers. Of these 19 have the advantage of Protection, and 21 are left to rely upon themselves.

Of the 21 free industries, in only *one*, in that of the blacksmiths, are wages higher in Victoria than in New South Wales,—a striking proof that, even if Protection does *for a time* enable some manufacturers to pay more to their workmen out of their legalised spoil, those whom they rob are driven to pay less to others.

Of the 19 protected industries the two most important—the shoe and the hat—pay in Victoria by the piece. But out of the 17 others, which we are able to compare with the corresponding trades across the Murray, one, that of the saddlers, pays a higher rate of wages in the Free Trade country, while the other

18 are about 10 per cent. higher in Victoria. But when it is remembered that supplies of all kinds are from 15 to 20 per cent. dearer in Victoria than they are in New South Wales, it will be seen that the "protected" labourer is not after all most safe from the inconvenience of an empty purse.

But the figures already given do not set out, in all their completeness, the advantages possessed by New South Wales.

The artificial encouragement to manufacturers has attracted labourers from agricultural pursuits. No doubt the result has been an increase in the wages of all those station hands who have remained; but with this increase has come a lessening of the amount of productions, when judged with regard to the increasing population. Agriculture, the true "native industry" of Australia, is running a risk of being destroyed by the greater difficulty of obtaining labour, owing to the increased cost of production, and the diminished power of saving. Luckily for Victoria, Protectionism soon must fail. Labourers will be attracted back to natural and profitable pursuits, and after two or three crises and some years of misery the laws of freedom will assert themselves again.

But perhaps the clearest proof that Protection has caused no real increase in the remuneration of the labourer is given by the fact, that immigration

into America and Victoria has diminished since that policy was carried out most stringently. Whereas, if wages had indeed been higher, labourers would have flocked from Canada and New South Wales to share the advantages of their more lucky neighbours.

America—Wages.

§ 2. But the subjoined table will dissipate all doubts upon the point, and show that, in America, as well as in Victoria, Protection does not raise the wages.

AVERAGE COST OF LABOUR NECESSARY TO PRODUCE ONE TON OF PIG-IRON ON FURNACE BANK FROM 1850 TO 1871, INCLUSIVE.

(Extracted from a Compilation by William E. S. Baker,
Secretary of the Ironmasters' Association, Philadelphia.)

N.B.—It should be remembered that labour-saving inventions were introduced largely into the trade^{*} between 1856–1864, so that though the cost of labour may be low, it may be so because the number of labourers is smaller, not because each labourer receives less.

No. I.

1850,	.	.	\$2.22	1862,	.	.	\$1.57
1851,	.	.	1.61	1863,	.	.	2.07
1852,	.	.	2.02	1864,	.	.	2.85
1853,	.	.	2.00	1865,	.	.	4.56
1854,	.	.	2.45	1866,	.	.	3.46
1855,	.	.	2.85	1867,	.	.	3.99
1856,	.	.	2.58	1868,	.	.	3.86
1857,	.	.	2.30	1869,	.	.	3.46
1858,	.	.	2.10	1870,	.	.	3.59
1859,	.	.	1.82	1871,	.	.	3.54
1860,	.	.	1.87	1872,	.	.	4.60
1861,	.	.	1.97	1873,	.	.	4.70 ¹

¹ And declining rapidly.

The average rate of wage for furnace-men per diem in January 1873 was \$1.90 to \$2.75, according to skill, and in December of same year \$1.75 to \$2.25. In 1874 wages everywhere declined 15 to 20 per cent.

The rise of wages which took place shortly after the introduction of Protection cannot be set to the credit of that system. The following table will show that upon the conclusion of the war the amount of capital attracted into the industry was far in excess of the actual supply of labour; so that though the labourers in the iron trade received a higher money payment, it was at the expense of the rest of the community. It may be remarked, moreover, that, owing to the increased cost of production since the war, the purchasing power of money is considerably lessened :—

No. II.

Number of Men employed in Pig-iron Industry.		Amount of Money paid in Wages in Pig-iron Trade.		Amount of Capital embarked in the Pig-iron Trade.	
1850	20,448	...	...	1850	\$17,346,425
1860	15,927	1860	\$4,515,430	1860	24,672,824
1870	27,554	1870	\$12,475,250	1870	56,145,326

A comparison with the tables on pp. 82, 83, will show that *wages in no way depend upon the duty*.

At times a reduction of duty has been followed by an increase of wages, while at others the same

proceeding has caused the opposite result. Or again, the duty has been raised and wages have gone up. For wages are determined entirely by the market rate, and though the effect of duties on this rate is certainly considerable, it is indirect and of slow operation.

The manner in which the influences of these duties is actually felt will be shown by a study of Table II. The imposition of taxes upon imports attracted into the industry an undue amount of capital. The labourers did not at first increase in similar proportion; consequently wages rose so long as the industry returned good interest. But directly excessive competition has so forced down prices that the manufacture of pig-iron became no longer profitable, wages sunk even below the normal rate, because, in plain language, the trade had collapsed.¹

A striking illustration of this process has been lately pointed out to me by Professor Thorold Rogers, in the growth of Trades Unions. These Societies have almost been created in America by the Morrill Tariff of 1861. The reason is obvious. The effect of Protection being to confer immediate benefits upon special interests,

¹ Even the low prices could not save it. In the first place, they were artificially produced; secondly, they came too late, and only when the country was impoverished.

the labourer sees a golden opportunity of extorting from the employer a portion of the extra profit which the tariff allows him to exact. The temporary success of organizations for this purpose blinds their leaders to the fact that the power of extracting such portion vanishes so soon as competition has begun to equalise profits in the protected trades. That Professor Rogers should have *foretold* the growth of Trades Unions as one result of a strictly protective tariff is no small evidence of the "practical" value of economical deductions.

As the iron industry of America used always to be quoted by Protectionists as the typical instance of their system, there can be few simpler ways of setting out the truth than by examination of this bundle of most cherished fallacies.

CHAPTER IV.

GENERAL TYPICAL EXAMPLE, EXHIBITING AND REFUTING
ALL MODERN PROTECTIONIST FALLACIES.

The History of the Iron Trade in America.

§ I. PROTECTIONISTS are never tired of repeating that an "ounce of experience is worth a ton of theory." If this maxim were introduced into action as well as into declamation, there would be no need to fear the continuance of Protectionist delusions.

No more convincing proof can be found of the injury which is inflicted by restrictions than their effect upon the protected industries of America and Victoria. There, if anywhere, the seed of Protection should have proved most productive of good fruit. Nowhere else were circumstances apparently so favourable; nowhere has a trial of the policy been made with better opportunities of observing its effects. If there is one industry in the world to which Protectionists might point as the result of their system, it is the iron trade of America; and,

indeed, in spite of the fact that that industry is at present bankrupt, Protectionists have always in the past proclaimed the benefits it has conferred upon the country, and even now are clamouring that it might be raised from its present tottering position by doubling the burdens which it has to bear.

A full examination, therefore, of the past, present, and future of the iron industry of America, will throw great light upon the question of Protection as it affects young countries.

Without going so far back as the year 1646 to record the first castings in New England, or tracing the manufacture of iron in detail up to the War of Independence, it will be enough to say that, so excellent was the workmanship of the American productions, that in 1750 England absolutely prohibited the setting up of any new iron works, or the exportation of any manufactured articles, for fear lest American competition should ruin the British master. However, pig and bar iron continued to be imported into England from America, and the iron industry still flourished, as it had begun, without the assistance of Protection.

By 1791 American superiority in all kinds of implements began to be universally allowed, so that Secretary Hamilton speaks with pardonable pride of the numerous iron and steel works which were being established in the country—of the excellence

of their goods, and of the profit they returned. English manufacturers began to ask for "Protection" against the rival which was so soon to ruin itself by "protecting" against them; for one of the most ludicrous results of a Protection policy is the fear and suspicion it inspires in the minds of all. Everybody thinks he ought to be protected against the very man who is clamouring for defence against the "invasion" of his timorous rival.

But now it may be well to take up the story in the very words of the protected manufacturers, subjoining a table of statistics (p. 82, 83) to illustrate remarks, and interspersing some criticisms on the Protectionist fallacies in the body of the quotation.

The extract is taken from a Report of the American Pig-Iron Manufacturers' Association, written in 1878:—

"When we consider that little over half a century [in actual count sixty-two years to date] has passed away since iron has been made in any quantity in the United States, the figures are sufficient to induce the inquiry, To what amount would our production have been extended had a wise tariff policy been pursued throughout that time? But, as it is, the figures speak for themselves.

"In 1810 the total value of pig-iron and castings was \$3,616,457, and of wrought iron \$10,998,086. Ten years later this value was reduced to \$2,230,275

YEAR.	Iron Produced in U. S., America, in Tons.			Iron Imported into U. S., America, in Tons.			Prices current in New York. Average of Monthly Quotations.			Remarks.		
	Pig.	Bar.	Rail.	Pig.	Duty.	Bar.	Pig.	Duty.	Rail.	Pig.	Bar.	Rail.
1810	53,900	24,500	...	...	...	7,600	...	*	...	...	...	...
1815	...	...	...	8,111	\$10.00	3,300	\$9.00	...	...	...	...	...
1818	...	...	...	164	...	2,400	15.00	...	...	...	...	...
1819	...	...	...	676	...	4,200	...	...	...	...	...	...
1820	18,600	9,800	...	768	...	2,000	...	...	...	...	...	...
1821	...	...	...	1,400	...	5,100	...	...	...	...	...	...
1822	...	...	...	av. of 322-26	900	av. of 500	18.00	...	...	...	...	...
1827	...	...	...	1,900	12.50	8,000	22.40	...	...	50-53	104-108	...
1828	...	...	...	3,000	...	8,500	...	...	...	45-52	91-97	...
1830	137,000	98,900	...	1,100	...	...	...	...	...	42-47	74-75	...
1831	...	...	...	6,900	...	...	...	...	...	10-16	71-73	...
1832	...	...	...	8,100	...	14,800	...	...	...	10-16	72-73	...
1833	...	...	...	9,500	10.00 ^d	27,000	18.00	...	...	33-45	74-75	...
1833-40	...	...	...	av. of 11,000	...	fluctuates	17.00	...	...	42-50	80-88	...
				18,000	54,000	18,000	...	...	...	...	...	...
				32,000	5,500	7,60	15.00 ^f	20,000	...	33-36	74-77	...
				12,200	...	92,600	...	23,000	...	53-55	67-69	...
				18,000	5,31	8,100	13.00	24,900	...	37-40	56-58	...
				3,800	9.00	6,300	17.00	9,000	\$25.00	35-39	56-57	...
				71,900	...	22,300	...	15,300	...	32-33	60-62	...
				27,500	...	29,300	...	21,800	...	37-38	73-75	...
				21,100	...	...	...	5,300	...	37-39	76-79	...

* The duty given is that on hammered iron only. That on rolled or towed was raised or lowered in the same ratio. It was on an average three times as much as the duty on hammered iron.

† In the last few years (1835-40) the duty on rolled iron had been reduced to \$arc.

‡ In 1833 a sort of sliding scale was introduced, the duty being gradually lowered.

§ The product of rails is probably included.

|| The crisis had begun before year ended, otherwise the average would be much higher.

1847	330,330	..	40,900	27,600	30 p. lb.	26,600 [*]	all bar	30 p. ct.	33-34	71-73	...	...	...	...	...	...	...	...
1848	230,000	..	24,318	51,600	..	52,000	..	13,500 ad val.	..	58-59	...	...	...	...	...	...	...	...
1849	56,700	278,044 [#]	..	105,600	74,800	104,200	..	29,400	..	23-24	46-47	...	...	...	...	...	...	...
1850	413,000	..	..	67,200	..	65,000	..	69,163	..	22	41-42	...	...	...	...	...	...	...
1851	549,800	..	..	97,800	..	45,700	..	112,900	..	20-21	36	...	...	...	...	...	...	...
1852	865,000^(?)	..	..	114,200	..	88,300	..	183,600	..	22-23	39-40	...	...	...	...	...	...	...
1853	424,200	240,000	..	160,400	..	45,300	..	24,5,000	..	33-35	63-66	...	...	...	...	...	...	...
1854	439,100	256,400	..	98,100	..	95,100	..	26,8,900	..	37-39	69-72	...	...	...	...	...	...	...
1855	987,500	205,000	..	1857	..	1857	..	127,500	..	28-29	57-60	...	...	...	...	...	...	...
1860	731,500	..	180,000	110,000	..	71,400	..	134,100	..	23	41-42	...	...	...	...	...	...	...
1861	209,000	..	209,000	22,000	\$6.00	24,200	\$15.00	126,100	\$12.00	21-22	43-44	...	...	...	...	...	...	...
1862	787,600	..	203,500	34,000	..	64,200	17.00	8,190	..	25-26	58-60	...	...	...	...	...	...	...
1863	947,600	..	1,335,400	488,100	..	96,200	22.40	17,000	13.44	30-37	73-74	...	...	...	...	...	...	...
1864	454,500	..	..	778,400	44,601	9.00	49,500||	..	118,700	13.50	63	95	...	...	...	...	...	...
1865	1,461,600	..	..	101,260	..	51,900	..	74,700	..	200	120	...	...	...	...	...	...	...
1866	1,461,600	..	..	932,800	541,400	..	68,500	..	73,500	15.68	47	115	...	...	...	...	...	...
1867	1,603,000	..	..	545,400	112,000	..	59,200	..	114,600	..	36	79	...	...	...	...	...	...
1868	1,916,600	..	..	929,000	1,123,500	..	..	..	203,800	..	30-34	79	...	...	...	...	...	...
1869	1,900,000	..	..	584,000	1,123,500	..	..	..	305,900	..	..	..	..	..	..	..	..	..
1870	1,950,000	..	..	563,000	1,209,100	..	7.00	..	17,00||	..	..	..	..	..	..	..	..	..
1871	1,950,000	..	..	795,200	1,359,600	178,500	..	90,900	..	429,400	..	33-36	70	...	...	...	...	...
1872	2,250,000	1,602,000	..	..	247,800	6.30	105,900	..	458,600	14.12	35-36	85	...	...	...	...	...	...
1873	..	..	..	215,500	..	71,800	..	431,700 ^b	..	30-37	105	...	...	...	...	...	...	...
1874	..	..	..	100,000 ^c	..	33,000	..	215,600	..	34-37	65	...	...	...	...	...	...	...
1875	..	..	..	50,000^(?)	..	..	..	20,000	..	..	..	..	..	..	..	..	..	..
1876	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
1877	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

SUBJOINED ARE VALUES OF IMPORTS IN DOLLARS.

1873,	\$9,300,000	1875,	\$18,500,000
1874,	33,800,000	1876,	13,100,000

Equivalent to a
tax of about \$2.

From 1847-65 this
column contains only
imports from Great
Britain. About one-
sixth should there-
fore be added to find
the amount.

In these years the
product of rails is pro-
bably included under
bar.

\$1844 a panic year.

From 1847-74 all
manufactured iron
other than rails is in-
cluded under bar.

The imports column
includes bar only.

A deduction of about
one-sixth should be
made, therefore, from
the iron column, if
the two are compared.

The duty varies
according to character
of the iron.

Including rails.
This extraordinary
decrease is owing
to the adoption of
steel rails. The im-
portation of these was
steady during 1874-75.

The imports in
1875 are roughly
estimated from the
money value. .

for pig iron, and \$4,640,669 for wrought iron, under a Free Trade epidemic."

[The table will show what are the facts. The war of 1812 almost ruined the trade, by stopping all importations. These revived again in 1815, and continued fairly large for three years. Then came bad harvests in England, with commercial crises everywhere. A protective duty of 10 per cent. was put on foreign iron. One effect was to diminish the demand for iron, and *consequently* to lessen the production of American iron. How little this decline was owing to the over-competition of England may be seen from the fact that foreign importations declined almost equally with the home productions. Thus, if there is any truth in Protectionist theory, the production of American iron ought to have increased very rapidly between 1815 and 1820.]

§ 2. In 1820 to 1830 the amount of iron consumed in America increased but slowly, in spite of an increase in the "protecting" duty! As the report says—

"In 1830 the value of the manufactures of pig-iron were \$4,757,403, and of wrought iron \$16,737,251."

[Now, one sees why the report was so anxious to put the date of the foundation of the iron industry in 1810. The increase in the home production of the twenty years from 1791-1810 was

over 2000 per cent.; the increase in the same under a protective regime, for the twenty years ending 1830, was 33 per cent.! Or, in other words, production had utterly failed even to keep pace with the advance of population. What more convincing proof can be obtained of the futility of such a policy?]

In 1833 a sliding scale of duty was introduced to the advantage of the country. By 1840 the production of iron at home had almost doubled, or, in the words of the report—

“The year 1840 showed a very decided improvement in the industry, even with the unwise policy pursued by Congress.”

[But yet this improvement was not due, as might have been expected, to the absence of foreign competition. Far from it. Through all those seven years' importations of foreign iron had been *increasing*. In 1840 the amount imported was nearly five times as great as that imported in 1830. In reality it was this very increase in the consumable iron within the country which enabled the home industry to show this gratifying improvement.]

Now we come to one of the strangest passages in the report—

“In 1841 nearly all the works were closed, and 300,000 people thrown out of employment.”

[It is difficult at first sight to discover a reason

for this. Statistics forbid it being traced to anything connected with the iron trade. They show that in 1841 the importation of pig-iron more than doubled, so that the 300,000 people out of work could not have been in that condition in consequence of the absence of materials upon which to exercise their skill. Moreover, another part of the report shows that in 1840 the number of furnaces was only 804; so that these 300,000 men could hardly have been employed upon the production of pig-iron.

[If the fact was as the report states—and the prosperity of the foreign trade, as well as that of the home trade, in the next year would lead us to doubt it—it was brought about by some general cause affecting other industries besides the iron.]

In 1842 the tariff was again almost doubled,—a measure which struck a great blow at foreign trade.

[The result of this action affords a most instructive illustration of the truth of the deductions of political economy. In one year the imports of pig-iron fell away by five-sixths; the imports of bar-iron diminished by three-quarters; the imports of railway-iron were lessened by two-thirds. "So much the better for the home industry," may be, and indeed is said, in the following words of the report:—]

"The tariff of 1842 revived this fluctuating in-

dustry once more, and in 1844 and 1845 the railway fever created a great demand, and stimulated production until 1846 paralysed the industry."

[Put 1872 and 1875 instead of 1844 and 1845, and substitute 1876 for 1846, and there is a perfect history of the iron industry in America during the last few years.

"1846 paralysed the industry!" The *naiveté* of this admission can hardly be exceeded. The unlucky point in Protection is that, under its régime, years have a knack of turning up to "paralyse the industry." But the causes of the paralysis in 1846 and 1876 are similar and plain. Foreign iron was excluded just at the time when it was needed most. The years 1843-45 were marked by an enormous demand for iron, owing to the extension of the railway system. Though American production was stimulated to an extraordinary degree, it was not sufficient to meet the demand. The foreign importations, for the exclusion of which the tariff had been framed, increased in one year fourfold, and in the next by nine times. Thus the only result of the tariff was to impoverish consumers by the high price of iron, and then to ruin the producer by excessive competition; while, as regards importations, the tax, by increasing the price, attracted larger quantities of English iron. Whereas, had trade been free, the price of iron would have been

so low that foreign iron would have been driven from the home market as native production rapidly and naturally developed.^{1]}

How different was the actual state of things!

The tax on importations was, of course, added to the price of the home produce ; for it would be too much to suppose that home manufacturers would not raise their prices at all events to the lowest rate at which foreigners could sell. A rise of price in an article is never confined to one portion of that article.

Still, railways had to be built, and promised marvellous profits, which, one may remark, might have been realised had not the cost of making been so great. But with comparative scarcity of iron came scarcity of machines, scarcity of agricultural implements, scarcity of household requisites. The result of this famine was twofold : and one effect was not, as Protectionist teaching would have led us to expect, that all the community was wealthier thereby. Famines or scarcities, even when artificially produced, do not tend to make all more comfortable by giving more with which to purchase satisfactions. Otherwise it might be desirable to sink all our wealth at the bottom of the sea, to "foster the native

¹ These last few years have been dwelt upon somewhat at length, because exactly the same occurrences have happened again quite recently.

industry" of shipbuilding, and to offer to American labour the American market of fishing for the treasure!

But to resume,—the results of this scarcity were of a double character, according as they are viewed in reference to the railway makers or the body of consumers. The railroads found it necessary to charge high freights; the agriculturist, whose produce was to be carried to the market, found this high carriage, when added to the increased cost of all his necessary implements, left a margin of profit too small to compensate for his trouble and his risk. Baulked thus of his expected profits upon freight, the railway director found it necessary to seek for fresh loans to keep the road going, until it should become remunerative. But money had now become scarce. The enhanced cost of living, caused by the scarcity of one of the main requisites of life, consumed the greater part of the small incomes of the majority. The little savings, which used to form the basis of the lending capacity of the country, had disappeared. Deprived of their usual supplies from this source, the banks found it necessary to call in the loans already made,—so far were they from being able to advance fresh moneys. In short, a crisis had arrived. Railway companies were bankrupt. Thousands of families were ruined. But the producers of iron were involved in the crash of the consumers;

for not only had the demand for iron diminished, but the supply had enormously increased. The high profits prevalent during the years 1844-45 had not only bribed producers to exert their utmost efforts, but had attracted into the industry an undue amount of competition. Consequently the price of iron fell with startling rapidity. Competition lowered it naturally, while sales of bankrupt stock forced it ever downward.

§ 3. It will be interesting now to examine the remarks of the Protectionists on the state of things described above.

The report continues—

"In 1847 the anthracite product of Pennsylvania had reached 389,350 tons, while the rail-mills of the State produced 40,996 tons of rails. . . . This product was reduced one-half, however, within two years, owing to the tariff of 1846.

"In 1848 the industry was again prostrated by a compromise tariff, looked upon as the abandonment of a protective policy, and the production of pig-iron fell off to 230,000 tons."

[It will be only fair to congratulate the iron industry of America on being able to recover from a "complete paralysis" in 1846, to the extent of being able to produce in 1847 nearly 400,000 tons of pig-iron only! One may be pardoned, however, if one fails to understand what was the extent of

this "paralysis" in 1846, when a production of 230,000 tons in 1848, or considerably more than one-half of the amount produced in 1845, during the height of the railway fever, is looked upon as considerably falling off from 1846! And wonder is still more increased when one sees that the prices of iron were not high enough to give any artificial stimulus to production, and that the importation of foreign iron had increased 400 per cent. Strange that such an "invasion" did not swamp the native industry! Still stranger is it to find that native industry springing forward, as if it were drawing renewed vigour from the feeding of the foreigner. Yet that such was the case, let Protectionists themselves declare.]

"The total amount of pig-iron consumed in the United States (in 1850) was 1,042,929 tons.

"In the next year, 1851, we produced only 413,000 tons of iron, and imported 464,559 tons.¹

"In 1852 the production of pig reached 540,755 tons, and importations 501,158.¹

"In 1853 the production was estimated at 805,000 tons.

"In 1854 the product of pig-iron was returned at 424,234 tons.

¹ A reference to the tables on p. 83 will show that these imports are put at a somewhat high figure.

"In 1855 at 439,186 tons, and in 1856 at 626,500 tons."

[These statements have been put out at length, because it is necessary to observe how a skilful juggling of figures makes it appear as if the low prices of iron in 1850, owing to the reduction of tariff in 1846, had diminished the home produce of iron. This effect is brought about by comparing the productions of *pig-iron* only with the *importations of iron of all sorts*,—a proceeding on the honesty of which no comment need be made! For purposes of reference a full proof of this statement is appended in the subjoined tables of statistics.¹ The figures relating to the American products can be, as a whole, verified by reference to other sources; but I have not been able to alight upon a confirmation of the high figure at which the production in 1853 is placed.]

Meanwhile, the wrought-iron industry was progressing with equal rapidity, as may be seen by reference to the tables at pp. 82, 83.

"In 1855," says the report, "the consumption of iron in the United States was 1,310,000 tons, being an increase of 200 per cent. in ten years."

[The full significance of these facts will be felt when it is remembered that English iron, *even without protective duties*, could not be sold in any part of

¹ Pp. 82, 83.

America for less than the price of the iron produced in the country; for pig-iron has never sold below \$10 per ton in England. Add to this the cost of transportation, with insurance, interest, commissions, and brokerage, about 50 cents more at the least, and the lowest price at which the imported iron could have been delivered in America was \$16.50 in gold. But in 1854 the cost of producing pig-iron in America was not over \$15, anthracite coal being \$2 a ton. And even charcoal-iron, according to a statement made by the manufacturers themselves, then cost at Constantia, New York, only \$16.25 per ton, the items being—

150 bushels charcoal at 5 cents,	\$7.50
2 tons of ore at \$1.70,	3.50
Flux,	0.25
Labour,	2.00
Interest and repairs,	3.00
	<hr/>
	\$16.25

Further, to get the imported iron to Constantia cost \$2 per ton in freight, so that Constantia iron was really \$2.25 cheaper than that imported. The fact of the dear English iron being bought at all proves clearly enough, that either there was not sufficient capital or labour in America to supply the home demand for iron, or that the demand was not strong enough to compensate for the expenses of production.]

The years 1856-1861 require no special comment. The iron industry steadily expanded under the influence of less restricted importations. The trade rapidly recovered from a commercial panic in 1854, so that in five years the production of pig-iron increased 100 per cent. Importations still continued large, though the lessening of the duties diminished their amount.

[To Protectionists this will seem a paradox ; for the lowering of the duties ought to have flooded the country with the produce of Europe's "pauper labour," choking the native industries, bringing ruin to the manufacturer, starvation to the workmen. Yet in actual fact this foreign invasion resulted in increased prosperity to all ! Iron was made cheaper ; it was thus brought within the reach of a larger number. The manufactures and industries, which had been before retarded by the impossibilities of securing a profit on the enormous outlay, necessitated by the high price of iron—that main requisite of all material advancement—now used their opportunities. The wonderful natural resources of the country were no longer made useless by an artificial tax upon their development. The furnaces and works, which were already started, were enabled to exert their utmost powers. They were now free from excessive competition, secured from fear of

sudden fluctuations, and certain of a demand for an article, the use of which is the strongest sign of material prosperity.]

§ 4. The war destroyed all this prospect of success. Not only did it bring trade to a standstill, but it weighted the country with a legacy of debts. At once to pay off these, and gratify Protectionists, a heavy tariff was again imposed. The uncertainty caused by the war had reduced importations, in the case of pig by four-fifths, in the case of rails by eight-ninths. The effect of the tax was to delay the rally, which would naturally have followed the return of peace. The restoration of peace, and the cessation of the usual foreign supplies, combined with still more powerful causes to prevent immediate suffering from the tariff and to stimulate the activity of home producers.

The war had engendered a spirit of reckless speculation. No trade seemed to offer so speedy or so assured a prospect of immediate fortunes as the iron. In one year the price of that article had been doubled, and there seemed no prospect of iron sinking to its former value. Yet railways had to be extended everywhere, while the iron which could have made these cheaply was excluded by a crushing tariff; for directly the foreign trade again showed signs of life the impost was increased by one-third, causing importations to diminish by one-half. Such

a shrinking in the imports resulted in great injury to those branches of trade for whose productions the importations were exchanged. This lessening of the productive power of the country, by narrowing its market, recoiled directly upon the consumers, and made fewer able to afford the use of iron. But iron was soon again reduced to a price at which it found consumers; for the gambling fever of the war doubled the number engaged in the production of pig. Since the Legislature had undertaken to coddle a certain industry by empowering those who embarked in it to levy a surtax upon consumers over and above the ordinary profits of the manufacturer, there was a rush of persons eager to participate in the legalised plunder. Such an excess of competition brought down prices rapidly. But as the demand for railway iron increased year by year producers were still able, even at the diminished rates, to secure handsome profits. Still the crash hung imminent, yet never came. Three causes delayed it until the year 1877.

The hollow system of financing made the wealth of the country seem larger than it really was. The diminution in the supply of labour caused by the war altered for a time the relation between the wages fund and wage receivers. Rates of reward, or wages, naturally rose, but the fictitious currency caused that rise to seem much greater than in reality it

was. The people were contented so long as they remained deceived. Whilst all believed that the money-tokens they possessed were really exchangeable for the wealth they professed to represent, purchases could be effected as freely as before ; and even more freely, because Protection, by limiting the transactions with foreigners, lessened the necessity for a return to specie payments. And here one may remark that there is one case in which Protection may be extremely advantageous even to an old community. When it has been decided to cheat the country by issuing fictitious money, Protection of the strictest kind may be useful in order to continue the delusion.

In America belief in the fallacy was further propped up by other more legitimate causes. The marvellous extension of the home railway-system has been already mentioned ; but the inflation of industry of all kinds at the conclusion of the Franco-Prussian war was equally effective ; and it was peculiarly so, in that it occurred just when means had been discovered of applying iron to many uses hitherto unknown.

The transfer of coin from France to Germany filled to overflowing the treasury of the victor. Relieved of the incubus of the war, manufacturers hastened to renew their stocks ; but the absorption of German labour by the war made it necessary to

look abroad for such replenishments. And not only was there an *immediate* necessity for supplying the old branches of industry, but the surplus capital sought an outlet in developing the new uses to which iron could be applied. When the existing supplies of Great Britain were drained, resort was had to America, causing the activity of the iron industry to be convulsively renewed; but before two years the force of the wave was spent. The spasmodic revival had merely delayed the crisis for a twelvemonth; for the strongest proof that this suddenly increased demand really only sufficed to keep the industry alive is afforded by the fact, that, in spite of the triumphant assertions of the New York Chamber of Commerce as to the iron trade of 1872, "having proved itself successful almost beyond precedent," the actual production of all sorts of iron in the United States was, in 1872, *less than* the production of the previous year, and very little more than that of 1870,—years in which the market had not been abnormally excited. Had the home power of consumption continued the same, the enormous increase in the foreign demand must have caused a corresponding increase of production. The reason why no such increase was apparent was, that few home industries returned a profit, because consumers were impoverished.

This was owing to two causes: the cost of

production had been artificially enhanced by taxes, and competition had become so excessive that the production of iron was conducted at a loss.

These causes are so important that it will be well to dwell upon them for a moment. By quoting, as far as possible, the reports of manufacturers we may convict the Protectionists out of their own mouths of the impossibility of their policy to result in anything but ruin. Should any one think that too much space is being given to an examination of this single instance, it should be remembered that America is now the hot-bed of Protectionism, and that her iron industry has always been pointed at by Protectionists as the conspicuous example of their policy's success. Indeed, if such policy could ever be successful, it should have won a most gigantic triumph in the iron trade of America. Everything was in its favour,—cheap land, good machinery, boundless natural resources. No wonder that Protectionists have avowed their willingness to stand or fall by this experiment! For it was the supposed success of the iron trade of America which prompted Victoria to introduce a similar policy, in the hopes—which are being only too rapidly fulfilled—of achieving similar results.

It becomes, therefore, all important to set out clearly what have been the causes of apparent successes; and to show that Protection has only been

effectual in limiting temporary activity and bringing final disaster.

For the only weapon available against the modern Protectionist is *fact*. He is ready to admit any quantity of theory, but always maintains that, though the idea may be on paper "absolutely" true, in practice the road to prosperity lies in the assumption of its actual falseness.

§ 5. It will be convenient to consider, first, the increased cost of producing. The materials for estimating this, during the past twenty years, are afforded in full by the report of Mr. Baker, which has been already used to show the variation in the rates of wages.

Without going into all the details, the subjoined figures will be sufficient to indicate the main conclusion.

Pig-iron at the furnace bank cost to produce per ton on an average—

In 1851,	.	\$13.30	In 1865,	.	\$32.21
1853,	.	14.88	1866,	.	27.88
1855,	.	18.87	1869,	.	26.83
1859,	.	16.14	1870,	.	30.04
1861,	.	16.61	1871,	.	29.65
1862,	.	16.11	1872,	.	31.05
1863,	.	16.53	1873, Jan.,	.	34.19
1864,	.	20.97	1873, Dec.,	.	28.97

A reference to the table of wages on page 76 will show that the enhanced cost of production cannot be accounted for by supposing an increase in the

cost of labour; and an examination of the items would prove, what might have been easily guessed, that an increase in the price of materials is really the cause of this enormous rise.

Without going into details, it will be enough to mention that, in 1857, ore was delivered at the furnace for 20 cents the ton. In 1874 the average cost of a ton of ore was \$5.40. A similar increase is seen in the price of coal. In 1860 mining-coal sold for 50 cents a ton. In 1874 similar coal cost \$4.60. The benefits of the Protective system must be large, indeed, to compensate for such an increase in the cost of the production of a necessary so requisite as iron. But the advantage of the rise in prices has not been distributed throughout the country. What advantage there has been has been shared between the monopolies of iron and coal. "The difference between the prices now and the prices twenty years ago has gone in part to the owner of the coal mine, in part to the owner of the iron mine, in part to the owner of the railroad, in part to the increased cost of production caused by artificial burdens, and, after paying all those charges, there remains a profit of \$14 to \$16 a ton to the makers of iron."¹

And to what end do the consumers or the ma-

¹ Colonel Grosvenor, "Does Protection Protect?"

jority pay this bonus to a few hundred manufacturers? The actual result of such a squandering of money is too well stated by Colonel Grosvenor to make it desirable to alter his phrases.

"Iron," he says, "was made before the war at such a cost as to defy competition, not only by Pennsylvania, but by other states. If the cost is greater now, to that extent has the system of protective duties deprived us of the industrial independence achieved before the war, and the plain remedy is to remove the artificial burdens which increase the cost of production. Take away the duty, so that owners of mines may be driven to consult their own interests, by selling a larger quantity of ore or coal at a smaller profit, so that the making of pig-iron may be increased in those regions where it can be made at reasonable cost. The duty on pig-iron is not merely unnecessary. It works great injury to the makers of bar and wrought-iron and steel; to the makers of castings, hardware, and other products in which competition is apprehended; to the manufacturers of all machines, agricultural implements, and nails; and to all blacksmiths and others included in the non-protected industries."

The following extract from a letter published by W. H. Powell, superintendent of the Clifton Iron-Works, sets forth the views of the manufacturers on the same point:—

"It is . . . very true . . . that at the present prices of pig-iron . . . the entire rolling-mill, nail-factory, and foundry interests of the West are completely paralysed and rendered unremunerative. . . . The expectation that the price of domestic iron will in time be reduced (the tariff remaining) is not justified by any incident in our history. . . . The actual cost of production has been increased in nine years 60 per cent.

"The country can no longer afford to garrot this most important branch of manufacture. In the iron interest alone we are strangling nine-tenths to protect one-tenth. Nor does that Protection accelerate the increase in the quantity of pig-iron produced, but it increases importations, increases the cost of production, and thus renders that industry permanently more feeble, more exposed to assault, and of less profit to the country. At every point the system is wasteful. Which is the true Protection of American industry, to secure a profit of \$17 a ton to the owners of a few hundred furnaces, or to secure prosperity to 30,000,000 of labourers; to secure more work and better wages to 15,000 blacksmiths, 11,000 workers in sheet-iron, 16,000 makers of agricultural implements, 48,000 makers of machinery; and to put 67,000 people engaged in the manufacture of iron beyond the reach of foreign assault?"

After reading this it becomes almost amusing to

find these "protected" pig-iron manufacturers meeting in June 1874, and deciding in solemn conclave that "there is nothing . . . to justify the hope that there can be any revival of business, unless Congress adopts prompt and vigorous measures to secure it." Such "prompt and vigorous measures" being soon afterwards defined to be laws prohibiting foreign competition, and laws *compelling manufacturers of iron to resume their operations!*

When schemes, equally subversive of liberty, are not only proposed, but carried into practice, all the misery of the past five years finds ready explanation. If only the divine laws of nature were allowed free play, a system of true liberty would diffuse benefits throughout the country even more widely than Protection scatters imposts.

But, as it is often asserted that Protection brings with it equivalent advantages, it will be desirable to examine still further into the condition of the iron trade, both as regards the capitalist and labourer. After reading the extract already given, it is not surprising to come across the following doleful complaint in the Report of the "American Iron and Steel Manufacturers' Association" upon the trade for 1873.

"The causes of this decline" [in prices] "may be found, first, in the natural tendency of high prices to restrict consumption, and thus bring about sharper

competition; and second, in the forced subsidence at the close of 1872 of the fever for building western railroads.

"The prices of iron have still further declined, reaching, in some lines of the trade, to a point far below the cost of production. The blow has been severely felt.

"After a careful survey of the whole field, we are satisfied that fully one-third of our furnaces were then [Nov. 1873] out of blast, and that by the close of the month one-half of all the furnaces will be blown out. Stocks of pig-iron are accumulating in many districts, for which there is no sale at any price. Most of the bar and rail mills now running are working on short time. . . . Thousands of iron workers at the beginning of winter are out of employment, while a large proportion of those who are yet employed have accepted a reduction of wages averaging 15 per cent. The mining of iron ore has sympathised with the prostration of the iron trade.

"At the end of almost five months of panic, the general iron trade of the country is little nearer to a condition of health and prosperity than at the beginning. . . .

"The principal cause of this continued dulness is the diminution of the amount of iron required by railways. Other, but subordinate, causes may be found in the interruption caused by the panic to all business operations largely requiring iron, such as the construction of iron buildings, *agricultural implements*, sewing machines, stoves, ranges and heaters, mill machinery, &c., and to the *enforced economy* of the people in dispensing with minor articles of iron manufacture which they could temporarily do without."¹

Numerous testimonies could be collected to the same effect. From these may be selected a portion of an article which appeared in the "Bulletin" of June 1874, which may be compared with the manufacturers' side of the question quoted above, and on page 102.

"Half a million of skilled and unskilled working men in this country are out of employment to-day because there is no work for them to do. Nearly 200,000 of these idle working men are iron workers, coal and ore miners, and other mechanics

¹ This may seem contradictory with the fact of low prices. But low prices in themselves will not cause demand. They are a sign of good demand. The former high prices had forced many to give up as much as possible the use of iron, and habits once established are not quickly changed. Moreover, the high price of living caused by "Protection all round" more than compensates for the artificial cheapness of one product owing to diminished demand and increased supply.

and labourers whose dependence for daily bread is upon the prosperity of the iron trade." Then follows a complaint against Congress for having done nothing to alleviate the distress! And the article proceeds—

"Wages have everywhere fallen, . . . but rents have not fallen, and flour and meat and potatoes and butter are where they were.

"Congress is responsible for the panic. Congress made the panic, and it should see that the whole people, and not a part only, shall bear its burdens. It has for years unduly encouraged the building of western railroads, by giving to railroad companies millions of acres of public land; and the building of these railroads has led to the building of furnaces and rolling mills, car shops and machine shops. . . . Many of these manufacturing, mechanical, and other investments are now unprofitable, but they never would have been made, and the *money they absorbed would never have been diverted from ordinary business channels*, if the Government had wisely limited its land-grant system." Then the article goes on to urge as a remedy a still stricter protective policy!

The following further extracts will show the continuance of the misery, and bring out more clearly that the cause of the special depression in the iron industry is over-competition, generated by Protection.

The New York "Weekly Times" of March 21, 1877, published an inquiry into the cause of the present depression, conducted without any party bias, and founded upon examination of competent witnesses and observation in the affected districts. The most striking facts in this report are summarised below. In the Lehigh Valley alone the Commissioner found thirty-one out of fifty-one furnaces out of blast. And this is not a temporary but a permanent prostration of an industry that is protected from 35 to 128 per cent. No more startling proof could be adduced of the steady decline in the trade than that steel rails five years ago in this same Lehigh Valley cost \$250 the ton, while rails of the same quality are now unsaleable at one-fifth of that amount. No one now has money to advance to railway speculators.

Again, the "Weekly Times" says, "At the present time pig-iron is at so low a figure, that, except in rare cases, it cannot be made at a profit, and is often made at a loss; and this in spite of the enormous reduction in the price of ore, labour, and coal. Neither ore, labour, nor coal will bear a further reduction."

As regards the labour question, Mr. Oliver Williams, the general manager of the Catasauqua Manufacturing Company, states that labour is as low now as it has been at any time before the war,

while the cost of living has not fallen to anything like the same extent. Wages, he says, are almost at starvation point.

The causes of this fearful misery are given directly by the paper from which we have already quoted.

It may be incidentally remarked, that a reference to the tables on pp. 82, 83, will show that the greatest depression in the American iron trade has occurred when the imports had most rapidly declined. According to Protectionists, the ironmasters of the United States ought never to have been more prosperous than when their fellow-countrymen were no longer "paying tribute" to the foreigner, and the "rapacious British merchant" had ceased to rob the American labourer of the wages that were rightly his.

But the special commissioner of the "Weekly Times" writes thus—

"The most important cause of the prostration is, that one-half of the blast-furnaces of the country could supply the whole present consumption of the country."

And this statement is confirmed by Mr. David Thomas, "the father of the anthracite trade," who speaks thus feelingly—

"As soon as we who have furnaces begin to make a little money, all our neighbours, whose furnaces are standing, will blow in and go a-head. And

what is going to become of the profits then? No; the truth is, we have an endless number of furnaces that we don't want, and until some of the owners are content to go out of the business we shall see no marked improvement in the pig-iron trade."

Strong as this is, to come from a Protectionist who has more experience of the iron trade probably than anybody else, the statement has been already paralleled by the reports of the manufacturers in 1874, and may be paralleled again by similar reports in 1876 and 1877.

The Iron and Steel Association of Pennsylvania write thus in answer to the Chairman of a Congressional Committee, relative to a proposed lowering of the import duties:—

"PHILADELPHIA, 23d March 1876.

"DEAR SIR,—Your despatch has been received. With one-half the furnaces and rolling mills of the country standing idle; with iron of all kinds lower in price to-day than before the war; with failure upon failure of our most experienced ironmasters announced in the public prints from day to day; with wages of ironworkers necessarily reduced so low that *they and their families can scarcely escape destitution and starvation*, the American Iron and Steel Association is astonished to learn that a reduction of duties on foreign iron is seriously contem-

plated by the Ways and Means Committee. . . . If your committee would visit the iron districts of the country, it would learn for itself that manufacturers are either in the hands of the sheriff or selling iron below cost, and men are working for \$1 [3s. 8d.] a day."

It would be useless to go on filling pages with authorities whose actual statements have never been denied. But an attempt has lately been made in America and elsewhere, to conceal the truth by advancing two fallacious signs of a supposed prosperity. Disregarding the fact that the number of failures in 1876 was 9092, while the number in 1867 was 2386—black records of ruin unparalleled in commercial history,—overlooking the tide of emigration that has now set in from the United States to Australia, and even to Europe, the President of the United States, in his address on 29th January 1877, considers that he may congratulate the nation upon nearing the end of the crisis, because, as he says, "The statistics of our foreign commerce show a balance of trade in favour of this country amounting during last year to \$120,000,000. During the fiscal year, ending the 30th of June 1877, I believe the balance will be at least \$100,000,000 in our favour."

[The President was accurate enough as regards his figures. But if he had looked a little deeper he

would have seen that the "balance of trade" got to be more and more in favour of America in proportion as the crisis became more and more severe; from seeing which one might be led to hope that the balance of trade would cease in future to bestow such favours on the country.

The balance of trade inclined towards America, because imports diminished, and not because exports increased. It is only one more sign of the lessened power of consumption. More people have had to do without their ordinary luxuries; many without the usual requisites of life.]¹

But English manufacturers are continually complaining of the competition of America. For instance, a correspondent of the "*Manchester Guardian*" writes from Canada as follows:—

"I find the whole country overrun by American travellers soliciting orders for their manufactures, *at almost any price, to secure a sale.*"

But this is exactly what might have been expected. It contains no denial of a crisis, even did the deliberate statements of the parties most interested admit of such denial. As the American masters themselves say, "their works are in the

¹ It is worthy of remark that the articles of import that show the greatest decrease are luxuries, such as coffee, &c. We have had occasion to notice the same fact in Victoria (see p. 56).

hands of the sheriff," and bankrupt stock is being sold at bankrupt prices !

§ 6. Nothing can disguise the misery, and only ignorance can fail to recognise the cause. When citizens have to form vigilance committees to protect their property from mobs of incendiaries frenzied with hunger ; when a labour-strike lets loose upon the country for some days all the horrors of civil war, to declare America prosperous is an insult to good sense ; and to eulogise the system which has brought about the misery is to show an utter inability to appreciate facts or to trace the workings of a policy. Canada, as well as other countries, is suffering from the same depression, but nowhere is the suffering so intense, because nowhere is the only remedy so rigidly excluded. Nowhere, as in America, has Protection called into existence so large a quantity of surplus stock, and nowhere has it so effectually closed all foreign outlets through which the home market might obtain relief. The natural results have followed. Manufacturers have soon found themselves encumbered with heavy unsaleable stocks, with their old customers driven from their market, and their new ones too impoverished to buy. Under such circumstances, the temporary expedient was adopted of reducing wages. The step still further contracted the home market, until the millowner is compelled to close his factory, the

ironmaster is driven to blow out his furnaces, the collieries are at a standstill. Then the Protective system finds its triumph in a general stagnation of business, and the gradual pauperisation of the working-classes.

Such has been the terrible experience of America, such will be the fate of Victoria; and is it even now certain that like follies may not one day ruin England?

The results that have been arrived at by this examination of the growth of the American iron-trade, which Protectionists themselves proclaim to be the crowning triumph of their system, may be briefly summarised as follows¹:

Before 1812 Free Trade had enabled the iron industry not only to start itself, but to compete successfully with the English manufacturer in his own market.

In 1810 duties were imposed. The industry progressed slowly.

In 1827 the duties were raised. The progress of the industry became still slower.

In 1833 the duties were lowered. The trade increased with wonderful rapidity, and in five years the production of wrought-iron was doubled.

¹ An examination of the steel and coal industries would be equally interesting and equally productive of anti-Protectionist conclusions.

In 1843 the duties were again raised. Simultaneously there came a railway fever. The result of these two causes was a crisis.

In 1846 relief was given to the country by a reduction of the duties. The iron trade rapidly revived. It increased rapidly every year until 1861, the price of iron being at the same time very low, and importations being large.

The war caused heavy duties to be imposed in 1862. Importations ceased and prices rose; but home production did not at first diminish, owing to a gambling competition, lowering prices and offering inducements for railway speculation.

The crisis almost occurred in 1869-70; but it was put off by the increased extension of railways, by the inflation of trade caused by the Franco-Prussian war, and by the reduction of the tariff. Home consumption, however, did not increase.

After 1872 it began to diminish. The limit had been reached, the crisis had begun.

Since 1873 the iron industry has been going from bad to worse; and that this is not owing to the "invasion" of the foreigner is proved by the extraordinary diminution in the imports. Capitalists are ruined. Wages hardly support life. A labour strike has only been repressed with bloodshed.

In short, the collapse of the Protective system

has occurred. America is only saved from bankruptcy by the abundance of its land.

These facts supply the "ounce of experience" Protectionists have asked for. They show that the system has failed when tried under the most favourable circumstances; that wages have been depressed by the squandering of capital, and that the reproductive powers of the country have been destroyed.

They prove that when importations are abundant, prices are low; and that when prices are low, owing to a natural demand, trade is at its best. Or, in other words, they prove that Free Trade means Great Trade and Great Trade means Prosperity.

§ 7. Thus, wherever Protection in country has been tried, the result has been a lamentable failure. For Protection there, as elsewhere, must always be injurious to the whole community: to the consumers directly: to the producer indirectly, through the impoverishment of the consumers: to the protected industry itself, through over competition.

Protection lessens the aggregate wealth of a community, and causes every trade and all professions to suffer proportionately to the interests that they have at stake.

Protection, thus, can never cause high wages, for whatever lessens the "*efficiency*" of labour, be-

it more obstacles to be surmounted, or be it bad workmanship, inevitably recoils on capital, and thus diminishes the only fund from which wages can be paid.

It will not be necessary to inculcate these simple axioms when every man is taught to feel the duty of holding to economic truths, as being the laws which comprehend the principles of international morality, and when Cosmopolitanism, or Christianity in politics, has become something more than a reproach.

APPENDIX.

LONDON IN THE FIFTEENTH CENTURY.

THERE is one other example of a Protective policy which it may seem almost absurd to mention. But, even at the risk of apparent pedantry, the case of London in the fifteenth century deserves some mention in an Essay on Protection, the more especially now that many Continental reformers are urging that a return to the Communal system would provide a remedy against the evils of individualism. Moreover, at that period all large towns very much resembled our modern young communities.

An examination of documents will show that the policy which they pursued was Protection of minutest kind. Every subdivision of every town was regulated by the strictest Protective laws. "And yet London prospered?"—Undoubtedly two reasons.

Firstly, The evils which Protection brings to consumer were prevented by having *every* price arbitrarily fixed; while the evil resulting to producers through over-competition was prevented

the formation of strictly limited trade companies, possessing complete monopolies ; and to prevent the forced low prices resulting in forced low wages, the rates of reward were also fixed. Enactment again stepped in to cure the evils of enactment.

And, without a doubt, the result was a high level of general comfort. But two causes prevent any such plan succeeding now.

It was a system which could only exist in a community so small that the requirements of all are known directly. Then their wants can be supplied *immediately*, or their misdoing corrected by special legislative action.

Secondly, Such a system must perish, as indeed it did, before any accumulation of capital. When a man has saved enough to work for himself, it is but a step to employing others to labour for him. Thus the whole system of Trade Guilds, and the Protectionism so closely bound up with it, falls away at once.

